HUMAN RESOURCE MANAGEMENT

GARY DESSLER

17TH EDITION

Human Resource Management

Seventeenth Edition

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Florida International University

Pearson

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HRM 17 PREFACE

Human Resource Management, 17th edition, provides students in human resource management courses and practicing managers with a full and practical introduction to the latest human resource management concepts and techniques in a highly readable and understandable form. As this new edition goes to press, I feel even more strongly than I did when I wrote the first edition that all managers—not just HR managers—need a strong foundation in HR/personnel management concepts and techniques to do their jobs effectively. You will therefore find an emphasis here on practical material you need to perform your day-to-day management responsibilities, even if you never spend a day as a human resource manager.

NEW TO THIS EDITION

- **New MyLab digital course option.**
- **Rewrote and streamlined Chapter 1—Introduction to Human Resource Management.** Chapter 1 is about 20% shorter than previously, with a revised chapter outline. New chapter material (see below) includes a new opening vignette, and new material on the pandemic's effects on HR.

THE NEW NORMAL

When Jobs Change, Change the Job Descriptions

Like millions of employers across America, it didn't take long for Ford Motor to tell its office workers to "collect and clear" their desks and office spaces once the pandemic hit several years ago. At the time, neither Ford nor anyone else could know how long remote work would last. But, even early on, Ford assumed most of its office workers would be working remotely at least a few days a week, for some time.[53] Furthermore, it's not just formerly office-based workers who are working remotely: millions of on-demand gig workers are coding, writing articles, and working remotely too.[54]

One consequence of remote work is that it requires a review and revision of most employers' job descriptions. The job analyses conducted before the pandemic may (or may not) still be applicable. For example, information about the job's actual work activities, such as selling or teaching may need expanding, reducing, or changing. The tools, equipment, and work aids may change. New performance standards (for instance in terms of daily client contact quotas) may need to be added, as may new human behaviors such as supervising one's own work. And the job context, in terms of things like physical working conditions and work schedule will almost surely change. In any case, remote work usually requires revising job analyses results and job descriptions.[55] ■

DIVERSITY COUNTS

Toward more Auditable DEI Standards

As a way to assess the quality of their products, many vendors adopt the quality standards of the International Organization for Standardization (ISO). The ISO recently began providing standards for human resource management activities.[47]

"Diversity and Inclusion" (ISO 30415:2021) is one part of these HR management standards. It include standards for Diversity and Inclusion activities such as *accessibility,* "the extent to which workplace environments, systems, and organizational products and services are accessible and can be used by the broadest range of people." *Accommodate* is a second example. This standard would cover, for instance, " . . . providing accessible information and assistive technologies, as well as time for treatment and rehabilitation, when applicable."[48] ■

- **Revised and retitled Chapter 2—Equal Opportunity Law and Action.** The new chapter title reflects all-new material on diversity, equity, and inclusion, including on biases' effects, and examples of diversity actions employers are taking.
- **New "The New Normal" boxes, and new coverage of working remotely.** COVID-19 changed how people work. This edition includes new remote work content, such as in Chapter 14. In addition to such embedded material, nine chapters also have new boxes titled *The New Normal*. These address HR-related implications of remote work, such as questions to ask in job interviews for remote work jobs.
- **Expanded "Diversity Counts" boxes.** Discussions in America of Diversity, Equity, and Inclusion are not new. However after the deaths in 2020 of George Floyd and others, 82% of Chief HR officers surveyed cited DEI as their top concern.[i] This edition's expanded Diversity Counts boxes address new topics, such as how employers incentivize executives to achieve diversity goals.
- **New treatment of boxed material.** To streamline chapters and improve readability, I "deboxed" and incorporated most boxed material from earlier editions into the chapter narration, generally under H2 headings. This includes: Know Your Employment Law; Digital and Social Media; HR Tools for Line Managers and Small Businesses; HR and the Gig Economy; The Strategic Context; and HR Practices Around the Globe.

[i] Jen Colletta, "Number of the Day: DEI after George Floyd," April 1, 2021, HR executive.com

CHAPTER-BY-CHAPTER CHANGES FOR THIS EDITION

To ensure a smooth transition for adopters from the 16th to this 17th edition, this edition's 18-chapter table of contents and the outline of all but Chapter 1 are basically as they were in the 16th edition. Therefore, in terms of teaching, the topic flow is about the same as the 16th edition. However, embedded in each chapter's paragraphs are dozens of new topics, practical examples, and research insights, all accompanied by hundreds of new references. I particularly examined every word and line in this edition, making dozens and dozens of "fine-tuning" improvements which, while possibly invisible to the casual reader, further improve the book's already high readability. What follows is a chapter-by-chapter summary of many of the changes you'll find in this new edition.

Chapter 1: Introduction to Human Resource Management

Chapter 1 is rewritten and about 20% shorter, and has a revised chapter outline.

New material includes, for instance, a new opening vignette on Spotify; new material on the pandemic's effects on human resource management; updated human resource manager competencies based on latest SHRM requirements; new subsections on remote work, and on diversity, equity, and inclusion; and expanded material on new approaches to organizing HR. There are also many updated statistics and tables, for example, on demographic and economic trends.

Chapter 2: Equal Opportunity Law and Action

A new chapter title, *Equal Opportunity Law and Action*, reflects new material on diversity, equity, and inclusion in action; this material includes the effects of unconscious biases on equitable treatment; other potential barriers to diversity, equity, and inclusion; and examples of specific actions employers are taking to manage DEI efforts. There is a new opening vignette on Starbucks; a new Diversity Counts box on unconscious biases; new material on who EEO laws protect; and updated cases and data, for example on *Roe v Wade*, and on EEOC harassment charges.

Chapter 3: Human Resource Policy, Strategy, and Performance

A new chapter title, *Human Resource Policy, Strategy, and Performance* reflects all-new material on writing human resource policies. There is a new opening vignette on Netflix, and the sections on planning and strategic planning are revised and streamlined. There is a new Diversity Counts box on auditable DEI standards; new material on organizational network analysis; and new and expanded material on employee engagement.

Chapter 4: Job Analysis and the Talent Management Process

New opening vignette on Apple; all-new coverage of the fundamentals of organizing including organization charts, departmentation, span of control, and delegation. There is a new The New Normal box on how remote work affects job descriptions; a new Diversity Counts box on formulating job specifications that are more accessible to diverse applicants; a new Strategic Context section on Apple's organization; and a revised competencies section.

Chapter 5: Personnel Planning and Recruiting

New opening vignette on Four Seasons Hotels and Resorts; new Strategic Context section on workforce planning at Four Seasons; new The New Normal box on recruiting remote workers; new Diversity Counts box on recruiting bias; new material on "returnship" recruiting programs; updated coverage of artificial

intelligence–based recruitment systems; and new coverage of gig worker staffing platforms.

Chapter 6: Employee Testing and Selection

Expanded material on problematic social media background searches in selection; new coverage of legal concerns in using AI-powered selection systems; new Diversity Counts box on how the U.S. Army reduces officer selection bias; and updated data, for instance on use of personality testing.

Chapter 7: Interviewing Candidates

A new The New Normal box on remote work interview questions to ask; updated material, for instance on how to ask behavioral and situational interview questions, on how to reduce the effects of bias in interviews, and on virtual interviews.

Chapter 8: Training and Developing Employees

Updated opening vignette on Uber. New and revised material on using competency and capabilities models in training and development; on how to avoid unsuccessful training sessions; on the pandemic's effects on delivering talent development; all-new coverage of "shadow learning"; revised coverage of cloud-based training, mixed reality, simulated learning, and gaming uses in training and development; new subsections on delivering virtual outside leadership coaching via websites; and on implementing change programs for installing artificial intelligence systems. New Diversity Counts box on training to overcome unconscious biases.

Chapter 9: Performance Management and Appraisal

New opening vignette on ExxonMobile; revised section on defining employees' goals and performance standards; new Strategic Context section on ExxonMobile's appraisal process; new material on using "big data" in employee appraisal; new The New Normal box on electronic performance monitoring of remote workers; expanded discussion of employee appraisal bias in revised Diversity Counts box; revised section on performance management technology, including cloud-based software.

Chapter 10: Managing Careers and Retention

Updated opening vignette on Medtronic; revised employer career management activities material; new Strategic Context section on Medtronic; new The New Normal Box on COVID-19's effects on turnover; new section on offboarding, including making it an ongoing process; new examples, for instance on making employee resignations definitive; revised chapter appendix on career choices and on finding a job.

Chapter 11: Establishing Strategic Pay Plans

Updated and revised section on the minimum wage, and on new exempt versus nonexempt employee thresholds; new section on using the online FLSA Overtime Calculator Advisor to determine overtime pay; revised material on legal considerations in compensation, for example regarding minimum wage, and ERISA; updated material on pay transparency; new material on how to determine if gig workers are employees or contractors; new material on how Alphabet uses surveys to monitor employees' attitudes about pay; new The New Normal Box on remote worker pay policies; updated Strategic Context section on Wegmans; new material on using AI in job evaluation; new data tables, for example on U.S. government pay grades; new material on stock exchange requirements for executive pay; new material on the pandemic's effects on total rewards programs.

Chapter 12: Pay for Performance and Financial Incentives

New subsection on research findings regarding effective incentive plan practices; new motivation section coverage of goal-setting theory and equity theory; revised and expanded section on the role of strategy in formulating the executive's total rewards package; new Diversity Counts box on how employers incentivize executives to achieve diversity goals.

Chapter 13: Benefits and Services

Updated vignette on Clif Bar; new material on the pandemic's effects on benefits; updated statistics, for instance on state unemployment tax rates; updated data tables, for instance on employers offering various health benefits; updated trends in employer healthcare cost control; new material on retirement benefits' racial disparities; new material on the Secure Act; on lifetime income accounts; and on new required vesting schedules; expanded, revised and updated section on flexible work schedules; a new The New Normal box on remote and hybrid work, including types of hybrid work models, studies of its effects on productivity, and on employees' and managers' positions on its use; new Diversity Counts box on remote working dual career couples.

Chapter 14: Building Positive Employee Relations

Updated opening vignette on China Foxconn plant; new The New Normal box on improving remote employees' communications and interactions; revised Strategic Context section on Foxconn plant, including new material on corporate responsibility; new material on Amazon's organizational climate surveys; new research findings on how managers create ethical environments; updated discussion of the "Best Companies to Work For."

Chapter 15: Labor Relations and Collective Bargaining

New HR As a Profit Center box on unionization and profitability at UPS; updated data, for example on union membership; new Diversity Counts box on unions' role in reducing racial wealth gaps; new material on union organizing campaigns including at Amazon; new The New Normal box on negotiating remote work labor agreements; updated section on union federations; new material on how unions are increasing their membership; updated examples, for instance on Kellogg facility strike; updated discussions of labor laws, including recent Supreme Court cases; new Individual and Group Activity on Housing Works in New York.

Chapter 16: Safety, Health, and Risk Management

New material on using AI–enabled safety analysis; on smart personal protective equipment; new or revised material on dealing with robots and exoskeletons; on new ways to reduce unsafe acts including employee conditioning and eye tracking; on safety awareness programs; on handling OSHA inspections; on environmental, health, safety, and quality (EHSQ) software; on alcohol use disorders; on addressing COVID-19; on violence at work; and on using digital tools to secure facilities; new example of safety starting at the top, quoting Amazon's Jeff Bezos; updated material on addressing substance use disorders and burnout; new application case on Amazon.

Chapter 17: Managing Global Human Resources

Completely revised Strategic Context section on Walmart's strategy in China; updated and revised section on orienting and training expat employees; new link to updated Hofstede model; new section on negotiating your expat pay plan; revised discussions of ethnocentric, polycentric, and global companies;

revised section on managing HR locally, including new research findings on standardizing global HR Systems.

Chapter 18: Managing Human Resources in Small and Entrepreneurial Firms

Rewritten and updated sections on how small businesses manage HR management; on how to use Internet, government, and other tools to support the small business' HR effort; and on using Department of Labor online elaws Advisors; new Diversity Counts box on adhering to municipal and state EEO laws; revised and updated section on using professional employer organizations; on managing HR systems, procedures, and paperwork; and on automating individual HR tasks, software packages, and HR apps.

SOLVING TEACHING AND LEARNING CHALLENGES

Few people study a book if they don't feel motivated to do so. There's no surefire way to motivate someone to learn. However studies suggest that motivating learners requires addressing at least four Teaching and Learning Challenges. I've therefore taken care to address these challenges in this book, starting with Create a Perceived Learning Need.

Create a Perceived Learning Need

Faced with course content to learn, many students will reasonably ask themselves, Why should I study this?

Chapter 1's expanded section "Why Is Human Resource Management Important to All Managers?" lays out five reasons to study this book. For example, "'Staffing' has always been part of what all managers do, which means that if you're not doing staffing right, you're not doing your job."

Furthermore, this book's focus on **job-related tools and examples** resonates with readers who seek skills they can use on their jobs. The **HR Tools for Line Managers and Small Businesses** and **Know Your Employment Law** chapter sections are just two of many examples that illustrate the "employability" benefits of studying this book. Some online reviewers say they're still referencing and using this book, years after the course is over.

HR Tools for Line Managers and Small Businesses: Dealing with an EEOC Charge

The EEOC may not file a suit, but getting a notice saying it is investigating is still scary. Every manager should have some knowledge about what the EEOC will be looking for and what to do. A checklist follows.[129]

During the EEOC Investigation:

- *Conduct your own investigation* to get the facts.
- Ensure that there is information in the EEOC's file *demonstrating lack of merit* of the charge.
- *Limit the information you supply* to only those issues raised in the charge itself.
- *Get as much information* as possible about the *charging party's claim*.
- *Meet with the employee* who made the complaint to clarify all the relevant iss For example, what happened?
- Remember that *the EEOC can only ask (not compel) employers* to submit doc ments and ask for sworn testimony.

Know Your Employment Law: Writing Job Descriptions that Comply with the ADA

The job duties list is crucial to employers' efforts to comply with the Americans with Disabilities Act (ADA). Under the ADA, the individual must have the requisite skills, educational background, and experience to perform the job's essential functions. The EEOC says, "Essential functions are the basic job duties that an employee must be able to perform, with or without reasonable accommodation."[42] Is the duty essential? Things to consider include

- Whether the position exists to perform that function
- The number of other employees available to perform the function
- The degree of expertise or skill required to perform the function
- Whether employees in the position are actually required to perform the function[43]
- What the degree of expertise or skill required to perform the function is[44]

HR AS A PROFIT CENTER

Boosting Customer Service

A bank installed special software that made it easier for its customer service representatives to handle customers' inquiries. However, the bank did not otherwise change the service reps' jobs in any way. Here, the new software system did help the service reps handle more calls. But otherwise, this bank saw no big performance gains.[69]

A second bank installed the same software. But, seeking to capitalize on how the new software freed up customer reps' time, this bank also had its human resource team upgrade the customer service representatives' jobs. This bank taught them how to sell more of the bank's services, gave them more authority to make decisions, and raised their wages. Here, the new computer system dramatically improved product sales and profitability, thanks to the newly trained and empowered customer service reps. Value-added human resource practices like these improve employee performance and company profitability.[70] ■

Include Familiar and Meaningful Examples

Most learners find it easier to learn something new when it's tied to and illustrated with familiar and meaningful examples.

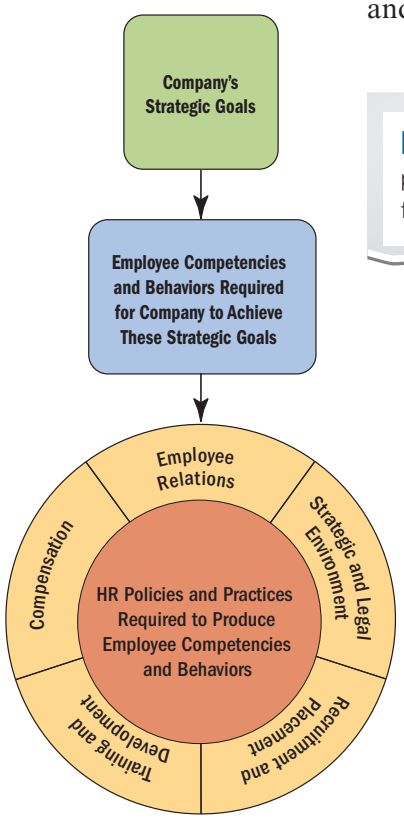
Hundreds of **familiar and relevant examples** (such as on Apple's succession plans) animate the chapters. Similarly**,** boxed **HR as a Profit Center** features illustrate **how managers use HR to improve competitiveness and profitability.**

Provide Feedback and Reinforcement

For motivated learning to occur, most everyone wants to know, How am I doing?

A full array of Learning Objectives, Discussion Questions, Individual and Group Exercises, Experiential Exercises, Application Cases, Continuing Cases, and integrative Comprehensive Cases provide students with many opportunities to assess what they've learned, apply critical thinking skills, and collaborate within teams. Available MyLab tools provide embedded interactive assessments. Notably, Chapters 3–18 also contain special **Translating Strategy into HR Policies and Practices at the Hotel Paris** cases. These cases show how this hotel's HR director uses the chapter's HR concepts and techniques to create HR policies and practices that produce the employee skills and behaviors the hotel needs to improve its service and achieve its strategic goals. There are in-chapter **HR in Action at the Hotel Paris** questions, and end-of-chapter Hotel Paris case assessment questions. These assessments give students a unique opportunity to reinforce what they've learned, and to understand the hotel's HR actions within the context of its strategic plans.

HR in Action at the Hotel Paris As they reviewed the details of the Hotel Paris's current recruitment practices, Lisa Cruz and the firm's CFO became increasingly concerned. They found that the recruitment function was totally unmanaged. To see how they handled this, see the case at the end of this chapter.



Strategy Model

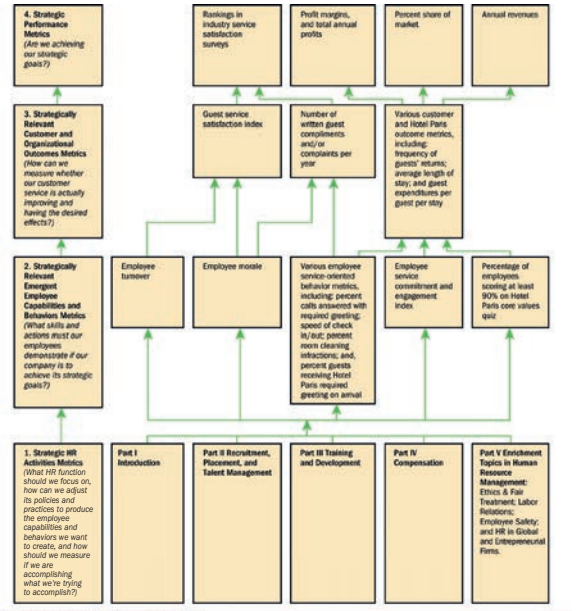
Provide Context—A Bird's-Eye View of the Material

Most people learn better when they see the material in context, in other words when they see the material's role in the larger sweep of things.

Human Resource Management 17e provides such context in four ways. First, all chapters start with a **Where Are We Now** . . . . overview. This summarizes what the chapter is about, and how the chapter relates to the following (and usually the preceding) chapter. Second, all chapters also start with a **Strategy Model**. Introduced in Chapter 1, it helps give readers a bird's-eye view of where the chapter fits relative to the others, and the role the chapter's content plays in achieving a company's goals. Third, **Strategic Context** sections in Chapters 3–18 explain how actual managers' HR actions produced the employee behaviors required to achieve their company's strategic aims. And fourth, **the continuing Hotel Paris cases** and the **HR Scorecard for Hotel Paris International** (please see below) help readers see how each chapter's HR decisions relate to the hotel's overall goals, and to decisions the HR manager made in other chapters' cases**.**

THE STRATEGIC CONTEXT: NETFLIX'S HR POLICIES Actually writing the policy then starts with determining what you want the policy to achieve. The employer's policies—even if adapted from prepackaged sources—should reflect how the employer wants things done. For example, Netflix is an innovative company. It evolved from mailing movie videos, to delivering DVDs, to producing and delivering entertainment online. Early on, its founder/CEO Reed Hastings decided that the best way to grow was to attract, hire, and retain "Dream Team" employees; then, let them thrive in a culture that emphasized creativeness, flexibility, and independent thinking.[4]

At Netflix, hiring and motivating such "Dream Team" employees meant emphasizing what Netflix called "people over process."[5] For example its Parental Leave policy is "take care of your baby and yourself"; most new parents take off for 4–8 months. Its Time Away policy is "take a vacation"; with some limitations, salaried employees can take off for as long as they need.[6] Netflix believes, probably correctly, that its



HR Scorecard for Hotel Paris International

Note: An abbreviated example showing selected HR practices and outcomes aimed at implementing the competitive strategy,"To use superior guest services to differentiate the Hotel Paris properties and thus increase the length of stays and the return rate of guests, and thus boost revenues and profitability and help the firm expand geographically.

MyLab Management Tools for Assessment for Learning

To improve student learning results, we recommend pairing the text content with *MyLab Management*, Pearson's teaching and learning platform that empowers you to reach every student. By combining trusted author content with digital tools and a flexible learning platform, MyLab personalizes the learning experience to help your students learn and retain key course concepts while developing skills that future employers are seeking in potential employees. From Mini Sims to Personal Inventory Assessments, MyLab helps you teach your course your way, by addressing teaching and learning challenges using meaningful examples, self-involvement exercises, and feedback and reinforcement.

MyLab's **Chapter Warm-up** assessment helps you hold your students accountable for READING and demonstrating their knowledge on key concepts in each chapter before coming to class.

Case Assignments and **Mini Sims** put students in professional roles and give them the opportunity to apply course concepts and develop decision-making skills through real-world business challenges. The **branching Mini Sims** strengthen a student's ability to think critically, help students understand the impact of their decisions, engage students in active learning, and provide students with immediate feedback on their decisions.

Engaging **Videos Assignments** explore a variety of business topics related to the theory students are learning in class. The Exercise Quizzes in them assess students' comprehension of the concepts in each video.

With **Learning Catalytics™**, you'll hear from every student when it matters most. A variety of questions can be posed that will help students recall ideas, apply concepts, and develop critical-thinking skills. Students can respond using their own smartphones, tablets, or laptops.

Personal Inventory Assessments (PIA) is a collection of online exercises designed to promote students' self-reflection and engagement. It enhances their ability to connect with concepts taught in principles of management, organizational behavior, and human resource management classes. The author has recommended a PIA for most chapters, which is assignable in MyLab Management. These assessments help develop professionalism and awareness of oneself and others, skills necessary for future career success.

Learn more about MyLab Management at www.pearson.com/mylab.

DEVELOPING EMPLOYABILITY SKILLS

From its first edition, this book has aimed to offer " . . . practical material you need to perform your day-to-day management responsibilities, even if you never spend a day as a human resource manager." That aim has been the benchmark I've used to decide what to include in almost every paragraph of every edition of the book. You'll therefore find **employability skills–oriented content** throughout the chapters, for example on how to avoid discrimination charges, how to write job descriptions, how to interview job candidates, and how to discipline employees. We can summarize the employability-oriented tools and features as follows.

Practical suggestions and examples. Hundreds of job-related suggestions and examples resonate with readers seeking employability skills. For example,

Chapter 2: How to deal with a charge of discrimination

. . . You turn down a member of a protected group for a job. This person believes he or she was discriminated against due to being in a protected class, and decides to sue . . . What should you do?

Chapter 5: In dealing with employment agencies. . .

***1.** Give the agency an accurate and complete job description; **2.** Make sure tests, application blanks, and interviews are part of the agency's selection process; **3.** Periodically review equal employment data on candidates accepted or rejected by your firm, and by the agency; **4.** Supplement the agency's reference checking by checking at least the final candidates' references yourself . . .*

Chapter 7: How to interview job candidates

. . . First make sure you understand the job and its human requirements. Then compose questions based on actual job duties from the job description . . . . Examples include (1) situational questions like "Suppose you were giving a sales presentation and a difficult technical question arose . . .

Chapter 14: How to discipline an employee

. . . Make sure the evidence supports the charge of employee wrongdoing. (Arbitrators often cite "the employer's evidence did not support the charge.") . . . Make sure to protect the employees' due process rights . . .

HR Tools for Line Managers and Small Businesses sections explain that many line managers and entrepreneurs are "on their own" when it comes to human resource management. These sections describe straightforward HR tools such as work sampling tests that line managers and entrepreneurs can create and use to improve their people management skills.

Know Your Employment Law sections discuss practical implications of the employment laws that apply to that chapter's topics. These include laws relating to recruitment (Chapter 5), selection (Chapter 6), training (Chapter 8), and safety (Chapter 16) that all managers should know.

HR as a Profit Center boxes present actual examples of how human resource management practices reduce costs or boost revenues.

Developing Communication, Critical Thinking, and Collaboration Soft Skills

This book's "skills" focus is, first, on HR-related skills like writing job descriptions. However, studying this 17th edition should also foster soft skills such as communication, critical thinking, and collaboration skills.

For example, the book helps show how **communicating effectively** is central to what managers do. Thus Chapter 2 (EEOC) addresses communication's role in reducing employee resistance. Chapter 9 (Appraisal) explains communication's role in appraisal interviews, in handling defensive employees, and in giving critical reviews. Chapter 14 (Employee Relations) explains using employee recognition programs to improve communications, and technology to improve remote worker communications.

Furthermore, as noted earlier, Discussion Questions, Individual and Group Exercises, Experiential Exercises, Application Cases, Continuing Cases, and

integrative Comprehensive Cases require that students apply **critical thinking skills**, and **collaborate within teams**.

INSTRUCTOR RESOURCES

- Instructor Resources are available at www.pearson.com under the Educator view of the product page. Instructors can log in and access the Testbank and TestGen files, PowerPoint slides, and Instructor's Manual.
- ***Need Help?*** Our dedicated technical support team is ready to assist instructors with questions about the media supplements that accompany this text. Visit support.pearson.com/getsupport for answers to frequently asked questions and.

ACKNOWLEDGMENTS

Everyone involved in creating this book is particularly proud of what we've achieved with the 17th edition. *Human Resource Management* is one of the top-selling books in this market, and, as you read this, students and managers around the world are using versions translated into about a dozen languages, including Thai, French, Spanish, Greek, Indonesian, Russian, Chinese, and the Arab World edition.

Although I am entirely responsible for *Human Resource Management*, I want to single out some people for their assistance. They include, first, faculty members who reviewed past editions and/or supplementary materials, and whose suggestions contributed to making this a better book:

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Gary Dessler

E+/xijian/Getty Images

1 Introduction to Human Resource Management

WHERE ARE WE NOW . . .

The purpose of this chapter is to explain what human resource management is, and why it's important to all managers. We will see that human resource management activities such as hiring, training, appraising, compensating, and developing employees are part of every manager's job. And we will see that human resource management is also a separate function, usually with its own human resource, or "HR" manager. The main topics we'll cover here include **What Is Human Resource Management?; Line and Staff Aspects of Human Resource Management; The Environment of Human Resource Management; The Human Resource Manager Today; The Manager's Human Resource Philosophy;** and **The Plan of This Book.** The accompanying framework (which introduces each chapter) makes this point: That the firm's HR *policies and practices* should produce the employee *skills and behaviors* the company needs to achieve its *strategic aims*.

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

1-1 **Explain** what human resource management is and how it relates to the management process.

1-2 **Define** authority, and give examples of line and staff human resource management tasks.

1-3 **Briefly discuss** and illustrate important environmental trends influencing human resource management.

1-4 **List** the areas of important knowledge human resource managers require today.

1-5 **Discuss** why the manager's human resource philosophy is important.

1-6 **Outline** the plan of this book.

Recently, Spotify became one of many companies switching to hybrid work.[1] Spotify calls its program, "Working From Anywhere." It lets employees largely choose when they work where.[2] That's great for most employees. But it also required Spotify's human resource management team to revisit how the company recruits, selects, trains, appraises, and pays its employees.

LEARNING OBJECTIVE 1-1

Explain what human resource management is and how it relates to the management process.

What Is Human Resource Management?

To understand what human resource management is, it's useful to start with what managers do. Spotify is an *organization*. An **organization** consists of people with formally assigned roles who work together to achieve the organization's goals. A **manager** is someone who is responsible for accomplishing the organization's goals, and who does so by managing the efforts of the organization's people.

organization
A group consisting of people with formally assigned roles who work together to achieve the organization's goals.

manager
Someone who is responsible for accomplishing the organization's goals, and who does so by managing the efforts of the organization's people.

managing
To perform five basic functions: planning, organizing, staffing, leading, and controlling.

management process
The five basic functions of planning, organizing, staffing, leading, and controlling.

The Management Process

Most writers agree that **managing** involves performing five basic functions: planning, organizing, staffing, leading, and controlling. In total, these functions represent the **management process**. Some of the specific activities involved in each function include

- ***Planning.*** Establishing goals and standards; developing rules and procedures; developing plans and forecasts
- ***Organizing.*** Giving each subordinate a specific task; establishing departments; delegating authority to subordinates; establishing channels of authority and communication; coordinating the work of subordinates
- ***Staffing.*** Determining what type of people should be hired; recruiting prospective employees; selecting employees; setting performance standards; compensating employees; evaluating performance; counseling employees; training and developing employees
- ***Leading.*** Getting others to get the job done; maintaining morale; motivating subordinates
- ***Controlling.*** Setting standards such as sales quotas, quality standards, or production levels; checking to see how actual performance compares with these standards; taking corrective action as needed

A Focus on Human Resource Management

In this book, we will focus on one of these functions—the staffing, personnel management, or *human resource management* function. **Human resource management (HRM)** is the process of acquiring, training, appraising, and compensating employees, and of attending to their labor relations, health and safety, and fairness concerns. The topics we'll discuss should therefore provide you with the concepts and techniques every manager needs to perform the "people," or personnel, aspects of management. These include

human resource management (HRM)
The process of acquiring, training, appraising, and compensating employees, and of attending to their labor relations, health and safety, and fairness concerns.

- *Conducting job analyses* (determining the nature of each employee's job).
- *Planning labor needs* and *recruiting* job candidates.
- *Selecting* job candidates.
- *Orienting and training* new employees.
- *Managing wages and salaries* (compensating employees).
- *Providing incentives and benefits*.
- *Appraising performance*.
- *Communicating* (interviewing, counseling, disciplining).
- *Training employees* and *developing managers*.
- *Building employee relations and engagement*.

And what every manager should know about:

- Equal opportunity and affirmative action.
- Employee health and safety.
- Handling grievances and labor relations.

Why Is Human Resource Management Important to All Managers?

Why are these concepts and techniques important to all managers? Perhaps it's easier to answer this by listing some of the *personnel mistakes you don't want to make* while managing. For example, you don't want

- To have your employees not doing their best.
- To hire the wrong person for the job.

- To experience high turnover.
- To have your company in court due to your discriminatory actions.
- To have an employee hurt due to unsafe practices.
- To let a lack of training undermine your department's effectiveness.
- To commit any unfair labor practices.

Carefully studying this book can help you avoid mistakes like these. More important, it can *help ensure that you get results—through people*.[3]

RESULTS THROUGH PEOPLE Remember that you could do everything else right as a manager—lay brilliant plans, draw clear organization charts, set up modern assembly lines, and use sophisticated accounting controls—but still fail, for instance, by hiring the wrong people or by not motivating subordinates. On the other hand, many managers—from generals to music label presidents to supervisors—have been successful even without adequate plans, organizations, or controls. They were successful because they had the knack for hiring the right people and then motivating, appraising, and developing them. Remember as you read this book that *getting results* is the bottom line of managing and that, as a manager, you will have to get these results through people. This fact hasn't changed from the dawn of management. As one company president summed it up:

> For many years it has been said that capital is the bottleneck for a developing industry. I don't think this any longer holds true. I think it's the workforce and the company's inability to recruit and maintain a good workforce that does constitute the bottleneck for production. I don't know of any major project backed by good ideas, vigor, and enthusiasm that has been stopped by a shortage of cash. I do know of industries whose growth has been partly stopped or hampered because they can't maintain an efficient and enthusiastic labor force, and I think this will hold true even more in the future.[4]

With global competition and economic pressures, that statement has never been truer than it is today. Human resource management methods like those in this book can help any line manager/supervisor (or HR manager) boost his or her team's and company's levels of engagement, profits, and performance. Here is one example we'll meet in this book:

> At one Ball Corp. packaging plant, managers trained supervisors to set and communicate daily performance goals. Management tracked daily goal attainment with team scorecards. Employees received special training to improve their skills. Within 12 months production was up 84 million cans, customer complaints dropped by 50%, and the plant's return on investment rose by $3,090,000.

YOU MAY MOVE THROUGH HR Here is another reason to study this book: *You might spend time as a human resource manager*. For example, about a third of large U.S. businesses surveyed appointed non-HR managers as their top human resource executives. Thus, Pearson Corporation (which publishes this book) promoted the head of one of its publishing divisions to chief human resource executive at its corporate headquarters. Why? Some think these people may be better equipped to integrate the firm's human resource activities (such as pay policies) with the company's strategic needs (such as by tying executives' incentives to corporate goals).[5] Appointing non-HR people can also be good for the manager. For example, one CEO served a three-year stint as chief human resource officer on the way to becoming CEO.[6] (However most top HR executives do have prior human resource experience. About 80% of those in one survey worked their way up within HR.)

HR FOR SMALL BUSINESS Just over half the people working in the U.S. work for small firms.[7] Small businesses as a group also account for most of the 500,000 or so new businesses created every year.[8] And small firms create about two-thirds of the net new jobs created in the U.S. annually.[9] Statistically speaking, therefore, most people graduating from college in the next few years either will work for small businesses or

create new small businesses of their own.[10] Small firms generally don't have the critical mass required for a full-time human resource manager (let alone an HR department).[11] The owner (and perhaps the owner's assistant) handles tasks like signing employees on. So (if need be) studying this book should help you *manage a small firm's human resources* more effectively. We'll address human resource management for small businesses throughout this book.

IT'S YOUR JOB "Staffing" has always been part of what all managers do, which means that if you're not doing staffing right, you're not doing your job.

A recent study of line managers' HR responsibilities illustrates this.[12] The companies' human resource management teams put their policies and practices in place on the assumption (or hope) that line managers would implement them as intended. Unfortunately, the line managers did not. For example, some line managers adapted and even replaced the systems they were supposed to use. Some "filled in" incomplete instructions with their own (erroneous) ways of doing things. As the researchers point out, "in more extreme cases, line managers' lack of human resource competencies may lead to dysfunctional outcomes, with potential legal, employer branding, and/or performance implications for the organization."[13] In any event, reading this book should help you do a better job of managing.

LEARNING OBJECTIVE 1-2

Define authority, and give examples of line and staff human resource management tasks.

Line and Staff Aspects of Human Resource Management

All managers have always been, in a sense, human resource managers, because they all get involved in recruiting, interviewing, selecting, and training their employees. Yet most firms also have a human resource department with its own top manager. How do the duties of this human resource manager and department relate to the human resource duties of the firm's other managers? Answering this requires a short definition of line versus staff authority. **Authority** is the right to make decisions, to direct the work of others, and to give orders. Managers usually distinguish between line authority and staff authority.

authority
The right to make decisions, direct others' work, and give orders.

Line and Staff Authority

In organizations, **line authority** traditionally gives managers the right to *issue orders* to other managers or employees. Line authority therefore creates a superior (order giver)–subordinate (order receiver) relationship. When the vice president of sales tells her sales director to "get the sales presentation ready by Tuesday," she is exercising her line authority. **Staff authority** gives a manager the right to *advise* other managers or employees. It creates an advisory relationship. When the human resource manager suggests that the plant manager use a particular selection test, HR is exercising staff authority.

line authority
Traditionally gives managers the right to issue orders to other managers or employees.

staff authority
Gives a manager the right to advise other managers or employees.

On the organization chart, managers with line authority are **line managers**. Those with staff (advisory) authority are **staff managers**. In popular usage, people tend to associate line managers with managing departments (like sales or production) that are crucial for the company's survival. Staff managers generally run departments that are advisory or supportive, like purchasing and human resource management. Human resource managers are usually staff managers. They assist and advise line managers in areas like recruiting, hiring, and compensation.

line manager
A manager who is authorized to direct the work of subordinates and is responsible for accomplishing the organization's tasks.

staff manager
A manager who assists and advises line managers.

Line Managers' Human Resource Management Responsibilities

However, line managers do have many human resource duties. This is because the direct handling of people has always been part of every line manager's duties, from president down to first-line supervisors. One major company outlines its line supervisors' responsibilities for effective human resource management under these general headings:

1. Placing the right person in the right job
2. Starting new employees in the organization (orientation)
3. Training employees for jobs that are new to them

4. Improving the job performance of each person
5. Gaining creative cooperation and developing smooth working relationships
6. Interpreting the company's policies and procedures
7. Controlling labor costs
8. Developing the abilities of each person
9. Creating and maintaining departmental morale
10. Protecting employees' health and physical conditions

And, we'll see that social media tools like *LinkedIn hiring* are expanding many line managers' HR responsibilities. For instance, they're making it easier for every manager to reach out and interact directly with potential applicants.[14]

The Human Resource Department

In small organizations, line managers may carry out all these personnel duties unassisted. But as the organization grows, line managers usually need the assistance, specialized knowledge, and advice of a separate human resource staff.[15] In larger firms, the *human resource department* provides such specialized assistance. Figure 1-1 shows human resource management jobs in one organization.[16] Typical positions include compensation and benefits manager, employment and recruiting supervisor, and employee relations executive. Examples of job duties include

- ***Recruiters:*** Use various methods including contacts within the community and print and online media to search for qualified job applicants.
- ***Equal employment opportunity (EEO) representatives or affirmative action coordinators:*** Investigate and resolve EEO grievances, examine organizational practices for potential violations, and compile and submit EEO reports.
- ***Job analysts:*** Collect and examine detailed information about job duties to prepare job descriptions.
- ***Compensation managers:*** Develop compensation plans and handle the employee benefits program.
- ***Training specialists:*** Plan, organize, and direct training activities.
- ***Labor relations specialists:*** Advise management on all aspects of union–management relations.

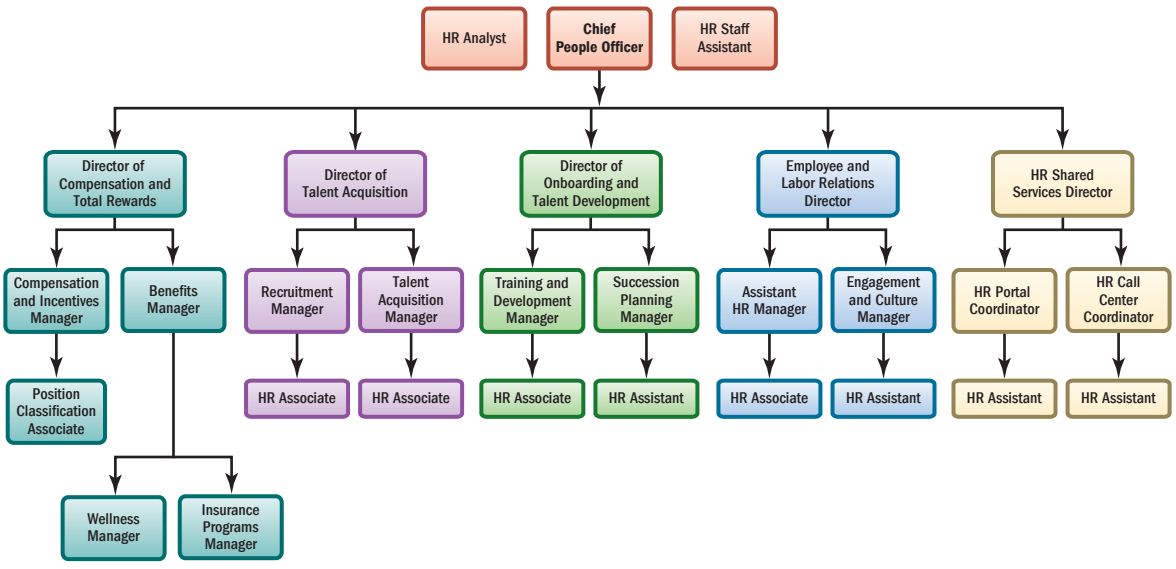

FIGURE 1-1 Human Resource Department Organization Chart Showing Typical HR Job Titles

Source: Gary Dessler, PhD

NEW APPROACHES TO ORGANIZING HR In some companies, the idea of an "HR Department" is something of a misnomer. Many employers are changing how they organize and deliver HR services. More are instituting *"shared services"* arrangements. These create centralized HR units. These units' services are then shared by all the companies' departments, to assist the departments' line managers and employees with human resource matters.[17]

The shared services teams use technology to efficiently offer much of their services through employee portals, intranets, and call center help desks. Most "clients" use the employee portals to access the shared service unit's knowledge base, for instance to get appraisal forms; other clients need call center advice with questions; and a few may need expert assistance solving problems.[18] By some estimates, clients' self-help inquiries through the portal, and advice via the call center address more than 90% of all clients' requests and inquiries.[19] Some of the clients' inquiries and requests may be outsourced to third parties.

You may also find specialized *corporate HR teams* within a company. These assist top management in top-level issues such as developing the personnel aspects of the company's long-term strategic plan. *Embedded HR teams* have HR generalists (also known as "relationship managers" or "HR business partners") assigned to functional departments like sales and production. They provide the employee selection and other assistance the departments need. *Centers of expertise* are basically specialized HR consulting firms within the company. For example, one might provide specialized advice in areas such as organizational change to all the company's various units.[20]

Cooperative Line and Staff Human Resource Management

In practice, HR and line managers share responsibility for most human resource activities. For example, human resource and line managers typically share responsibility for skills training. Thus the supervisor might describe what training she thinks the new employee needs, HR might design the training, and the supervisor might then provide on-the-job training.

LEARNING OBJECTIVE 1-3

Briefly discuss and illustrate important environmental trends influencing human resource management.

The Environment of Human Resource Management

Companies compete within an environment, and managers have to adapt to that environment. For example, diminishing economic prospects may necessitate redoubling efficiency efforts, while rising political activism may signal a need for new equal employment efforts. In management, assessing trends is often called *environmental scanning* and focuses on six categories of trends: Economic trends, and competitive, political, technological, social, and geographic trends. We'll look briefly at some trends affecting human resource management.

Social, Demographic, and Workforce Trends

There are several powerful social trends, particularly in the nature of the workforce, and in how people work.

THE WORKFORCE The composition of the workforce will continue to become more diverse, with more women, minority group members, and older workers in the workforce.[21] Table 1-1 offers a bird's-eye view.

Between 2002 and 2030, the percent of the workforce that the U.S. Department of Labor classifies as "White" is projected to drop from 82.8% to 75.1%. At the same time, the percent of the workforce that it classifies as of Hispanic origin will rise from 12.4% to 21.2%. The percentages of younger workers will fall, while those over 55 will rise from 14.3% to 25.1%. Many employers call "the aging workforce" a big problem. The problem is that there aren't enough younger workers to replace those retiring.[22] Many employers are bringing retirees back (or trying to keep them from leaving).

TABLE 1-1 Demographic Groups as a Percent of the Workforce, 2002–2030

Age, Race, and Ethnicity	2002	2012	2024	2030
Age: 16–24	15.4%	13.7%	11.3%	11.0%
25–54	70.2	65.3	63.9	63.9
55+	14.3	20.9	24.8	25.1
White	82.8	79.8	77.7	75.1
Black	11.4	11.9	12.7	13.0
Hispanic origin	12.4	15.7	19.8	21.2
All other	5.4	7.1	10.0	11.9

Source: U.S. Bureau of Labor Statistics Economic News Release, www.bls.gov/news.release/ecopro.t01.htm, accessed December 19, 2013; https://www.bls.gov/news.release/ecopro.t01.htm, accessed April 16, 2017; https://www.bls.gov/emp/tables/civilian-labor-force-summary.htm?msclkid=ec0cde7cd08111eca43adf1022937cb0#1, accessed May 10, 2022.

Complicating all this is the fact that the labor force in America is growing more slowly (which is not good, because if employers can't get enough workers, they can't expand). To be precise, the Bureau of Labor Statistics projects the labor force to grow at 0.5% per year from 2020 to 2030. That's up from an annual growth rate of 0.4% during the 2010–2020 decade, but is much slower than in 2000–2010 and previous decades, when it grew closer to 0.8%.[23] Why? Mostly because the labor participation rate—the *percent* of the population that wants to work—is way down.[24] Surveys of human resource officers consistently rank "talent management" activities—the acquisition, development, and retention of talent to fill the companies' employment needs—as one of their top concerns.[25]

The pandemic accelerated occupational trends that were already underway.[26] Openings in occupations such as health aides and care workers, STEM professionals, health professionals, and managers, are rising fast. Those for customer service and sales, production and warehousing, and office support workers are declining.

JOBS PEOPLE DO Furthermore, the work people are doing—their jobs—are changing. For one thing, about 80% of the U.S. workforce is now employed producing and delivering services, not products.[27] In this decade, about two-thirds of all the new jobs added in the U.S. will be in services, not in manufacturing.[28]

Whether in services or manufacturing, jobs are increasingly dependent on technology. For example, at one Iowa Alcoa plant, a computer at each workstation helps employees control their machines. Employees type their commands into computerized machines that create precision parts.[29] That requires special training and employee testing. As another example, cobots (robots designed to work side by side with people) require special safety precautions.

And of course in many companies today, workers aren't employees at all, but independent contractor–gig workers. They work when they can, on what they want to work on, when they're needed.[30] Upwork (www.upwork.com)[31] symbolizes this. Millions of freelancers, from graphic designers to translators and lawyers register on its site. Employers use it to find, screen, hire, and pay the talent they need, in more than 180 countries.[32] These workers symbolize the vast workforce of contract, temp, freelance, independent contractor, "on-demand," or "gig" workers. These workers may soon comprise 40% of the workforce.[33] Google's parent, Alphabet Inc., has about the same number of outsourced jobs as full-time employees.[34]

WHERE PEOPLE DO THEIR JOBS[35] Furthermore, the pandemic popularized working remotely.[36] In 2019, about 60% of remote capable workers were working fully at the office; that dropped to 19% in 2022. About 8% were working only off-site in 2019; that jumped to 39% in 2022. About 32% had hybrid work arrangements in 2019; 42% did in 2022. About two-thirds of high-growth companies have hybrid work arrangements.[37]

Most managers don't want workers fully remote.[38] It's a different story for the workers. A Gallup survey found that when workers who prefer hybrid or fully remote are forced to work fully on-site, 54% say they'd probably look for another job if they couldn't work from home.

At companies like Spotify, remote work means adjusting human resource practices. For example, video interviews replace in-person ones; remote monitoring augments appraisals; and pay plans adjust based on where employees work.

employment engagement
The extent to which an organization's employees are psychologically involved in, connected to, and committed to getting their jobs done.

EMPLOYEE ENGAGEMENT **Employee engagement** refers to being psychologically involved in, connected to, and committed to getting one's jobs done. Engaged employees "experience a high level of connectivity with their work tasks," and therefore work hard to accomplish their task-related goals.[39]

Employee engagement matters because it drives performance. For example (as we discuss in Chapter 3), based on one Gallup survey, business units with the highest levels of employee engagement have an 83% chance of performing above the company median; those with the lowest employee engagement have only a 17% chance.[40] An earlier survey concluded that companies with highly engaged employees have 26% higher revenue per employee.[41]

The problem for employers is that only about a third of today's employees nationally are engaged. In one survey, about 30% were engaged, 16% were actively disengaged, and most were simply not engaged.[42]

We will see in this book that managers improve employee engagement by taking concrete steps to do so. We use Employee Engagement Guide for Managers sections in most chapters. These show how managers use human resource activities such as recruiting and selection to improve employee engagement.

Geographic/Globalization Trends

As we'll see in Chapter 17 (Managing Global Human Resources), you needn't dig far to see how important international business is. For example, the total of U.S. imports plus exports rose from $582 billion in 1980, to about $5.9 *trillion* recently.[43] With the pandemic, populism, and changing societal values, the pace of economic integration recently has slowed, but not stopped.[44]

Globalization confronts managers with special challenges. For one thing, "going global" requires addressing international human resource management issues. For example, "Should we staff our offices in Japan with local or U.S. managers?"

We will also see that the challenging thing about managing HR globally is that what works in one place may not work in another. The employer faces an array of political, social, legal, and cultural differences among countries and people abroad. "Employment at will" in America facilitates laying someone off, while in India or France dismissals can take years. Managing at a distance adds to the challenge. Yet, challenging or not, the employer has to deal with such questions.

As multinational companies jockey for position, many transfer operations abroad, not just to seek cheaper labor but to tap new markets. The search for greater efficiencies also prompts some employers to *offshore* (export jobs to lower-cost locations abroad, as when Dell offshored some call-center jobs to India). And with more jobs now being done remotely, many employers may send even higher-level jobs abroad. Recently, however, evolving trade policies, the pandemic, and other reasons have prompted many employers to bring at least manufacturing jobs home.[45]

Economic Trends

As you can see in Figure 1-2, gross domestic product (GDP)—a measure of U.S. total output—boomed from 2010 to 2018.[46] Then, in 2019 the COVID-19 pandemic struck, and all measures fell off a cliff. GDP fell from about $21.6 trillion in quarter four (Q4) of 2019, to about $19.4 trillion in Q1 of 2020, (that's more than GDP fell in 2007–2009, which many called "The Great Recession"). Home prices dropped by 10% or more (depending on city). Unemployment nationwide soon rose to 14.4% in April 2020, and more than 20 million Americans were unemployed in May 2020.[47] Then, by

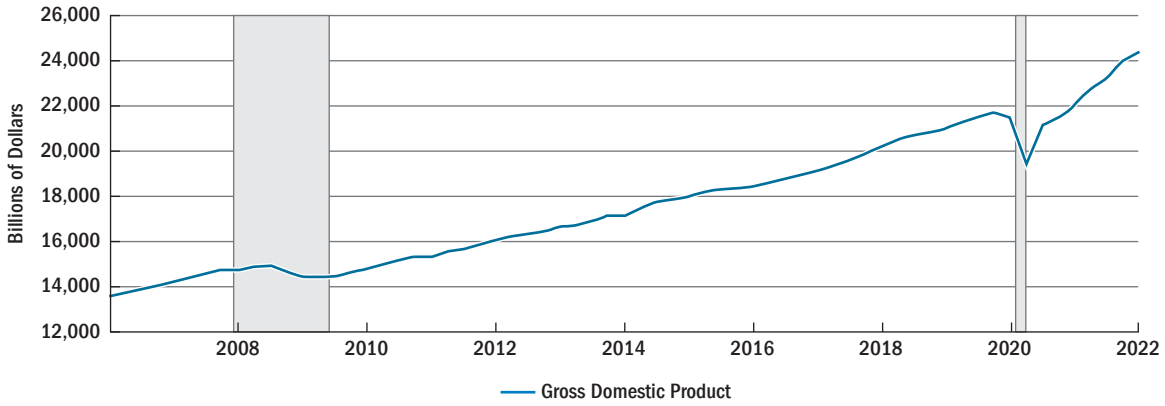

FIGURE 1-2 Gross Domestic Product, 2005–2022

Source: St. Louis Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/GDP#0.

May 2022, GDP was back up to $24.2 trillion, and the unemployment rate was 3.8%; employers were struggling to find, recruit, and retain employees.

What does the future hold? Hopefully clear sailing, but in the short term there were some clouds. During the height of the pandemic, in a bid to flood the economy with cash, the Federal Reserve System increased the money supply by a huge 40%.[48] Some critics contend that's one reason inflation surged to over 8% in 2022. At the same time, productivity decreased 7.5% in 2022 Q1.[49] In 2022, the Fed began raising interest rates. The hope is that doing so will cool inflation, without slamming the brakes on the economy.

Technological Trends

Technology has had a big impact on how human resource managers do their jobs. Many of these changes will be familiar to anyone who has interacted in any way with a human resource management department recently.

- For example, employers use *social media* tools such as Twitter, Facebook, and LinkedIn (rather than, say, employment agencies) to recruit new employees. Accenture estimates that social media tools like LinkedIn will produce up to 80% of new recruits—often letting line managers do their own recruiting.[50] According to one report, 48% of job seekers surveyed said they've used Glassdoor during their job search.[51] Such transparency usually prompts sensible human resource managers to make sure their internal processes (such as recruiting) are civil.
- Employers use *mobile applications*, for instance, to monitor employee location and to provide digital photos at the facility clock-in location to identify workers.
- HR managers use *cloud computing*–based dashboards to monitor teams' goal attainment, and to provide real-time direct evaluative feedback. SAP and Kronos offer cloud-based systems for onboarding, tracking, and scheduling freelance gig workers.[52]
- *Data analytics* basically means using statistical techniques, algorithms, and problem solving to identify relationships among data. Managers use it to solve problems (such as, how can I anticipate which of my best employees is likely to quit?). When applied to human resource management, data analytics is called *talent analytics*.

  Such analyses can be powerful. One employer assumed for many years that what mattered in hiring was the school the candidate attended, the grades they had, and their references. A retrospective talent analytics study showed that these traits didn't matter at all. What mattered were things like: their résumés were grammatically correct, they didn't quit school until obtaining some degree, and they could succeed with vague instructions.[53]

- *Artificial intelligence* (AI) basically means using computers to do tasks in human-like ways. Companies use AI to "learn" and predict which job applicants will succeed, and which are most likely to leave.[54] AI-based chatbots help companies like PepsiCo screen large numbers of part-time employee applicants.[55] AI-based "deep background checks" analyze current and potential employees' social media feeds for signs of contemptible behavior. AI helps LinkedIn analyze employee surveys, to identify declines in morale and to make suggestions about dealing with it. Yet the AI tools are no better than the assumptions that go into them. For example, one company's new AI applicant screening tool turned out to be biased, and rejected most women's resumes.[56] Without due care, AI algorithms may just "amplify human prejudice."[57]
- *Augmented reality* (AR) transforms huge amounts of data and superimposes digital summaries and images on the physical world. For example, Boeing uses AR to help trainees learn the 50 steps required to assemble an aircraft wing section.[58]

Political Trends and Values

Political trends—including election results, legislation, regulation, special interest advocacy, and evolving values—have long had an outsized effect on human resource management. America's labor laws of the 1930s and the civil rights laws of the 1960s are two examples. Important trends today include sustainability, diversity/equity/inclusion (DEI), and ethics.

SUSTAINABILITY In a world where sea levels are rising, glaciers are crumbling, and people increasingly view financial inequity as offensive, many say that businesses can't just measure "performance" in terms of profits. They say that companies' efforts should be "*sustainable*," by which they mean judged not just on profits, but also on their environmental and social performance.[59] As one example, PepsiCo has a goal to deliver "PepsiCo Positive." This means delivering financial performance while also achieving human sustainability, environmental sustainability, and talent sustainability. PepsiCo wants to achieve business and financial success while leaving a positive imprint on society (click www.pepsico.com, then click *Sustainability*, and then *PepsiCo Positive*).[60] As another example, the giant French materials company Saint-Gobain opened new offices in Pennsylvania. Its human resource department took a lead in creating sustainable offices, for instance, indoor air purity monitors.[61] There are many other ways human resource managers can help lead sustainability efforts, such as by facilitating remote work to reduce carbon pollution.

DIVERSITY, EQUITY, AND INCLUSION (DEI) Civil rights matters have been part of human resource management's job, at least since Congress passed the 1960s-era equal employment laws.[62] Recently, as we will see in Chapter 2, several events made DEI go " . . . from a nice to have to a must-have." [63] One of these events was the deaths of George Floyd and others.[64] Word of the protests triggered by George Floyd's death spread quickly.[65] Almost 82% of chief HR officers surveyed recently cited DEI as their top concern.[66] Employers are taking many steps to bolster DEI efforts, usually with human resource management taking the lead.

ethics
The principles of conduct governing an individual or a group; specifically, the standards you use to decide what your conduct should be.

ETHICS **Ethics** means the standards someone uses to decide what his or her conduct should be. Regrettably, news reports are filled with stories of otherwise competent managers who have run amok. For example, police recently accused a Hyundai subsidiary in Alabama of violating employment law by hiring children as young as 12 as factory workers. [67] In Chapter 14 we will see that many ethical issues—such as workplace safety—are HR-related, and that human resource managers can play a big role in cultivating organizational ethics. SHRM—the Society for Human Resource Management—has a Code of Ethics for HR managers. [68]

Competitive Trends

We will see in the following section that in a world where companies are always striving to find competitive advantages over competitors, human resource management is expected to play a big role in boosting performance. As an example, you will find special *HR as a Profit Center* features like the accompanying one through this book.

HR AS A PROFIT CENTER

Boosting Customer Service

A bank installed special software that made it easier for its customer service representatives to handle customers' inquiries. However, the bank did not otherwise change the service reps' jobs in any way. Here, the new software system did help the service reps handle more calls. But otherwise, this bank saw no big performance gains.[69]

A second bank installed the same software. But, seeking to capitalize on how the new software freed up customer reps' time, this bank also had its human resource team upgrade the customer service representatives' jobs. This bank taught them how to sell more of the bank's services, gave them more authority to make decisions, and raised their wages. Here, the new computer system dramatically improved product sales and profitability, thanks to the newly trained and empowered customer service reps. Value-added human resource practices like these improve employee performance and company profitability.[70] ■

LEARNING OBJECTIVE 1-4

List the areas of important knowledge human resource managers require today.

The Human Resource Manager Today

We will see in this section that human resource managers today play major roles in improving their companies' performance and competitiveness, and in helping top management craft their company's long-term strategic plans.

Performance and Human Resource Management

Employers expect human resource management to spearhead *employee performance-improvement* efforts.[71] In doing so, HR can apply three levers. The first is the *HR department lever*. The HR manager ensures that the human resource management function is delivering services efficiently. For example, this might include outsourcing certain activities such as benefits management, and using technology to deliver services more efficiently.

The second is the *employee costs lever*. For example, the human resource manager takes a prominent role in advising top management about the company's staffing levels, and in setting and controlling the firm's compensation, incentives, and benefits policies.

The third is the *strategic results lever*. Here the HR manager puts in place the recruitment, selection, training, and other policies and practices that produce the employee competencies and skills the company needs to achieve its strategic goals.

PERFORMANCE MEASUREMENT Improving performance requires measuring what you are doing. For example, when IBM's former chief HR officer needed $100 million to reorganize its HR operations some years ago, he told top management, "I'm going to deliver talent to you that's skilled and on time and ready to be deployed. I will be able to measure the skills, tell you what skills we have, what [skills] we don't have [and] then show you how to fill the gaps or enhance our training."[72]

Human resource managers use performance measures (or "metrics") to validate claims like these. For example, the average number of HR employees per 100 total employees is 2.57.[73] We'll address metrics in Chapter 3.

EVIDENCE-BASED MANAGEMENT Basing decisions on metrics is the heart of *evidence-based human resource management*.[74] Put simply, evidence-based human resource management means using the best-available evidence to make decisions about the human resource practices you are focusing on.[75] The evidence may come from *actual*

measurements (such as, how did the trainees like this program?). It may come from *existing data* (such as, what happened to company profits after we installed this training program?). Or, it may come from published *research studies* (such as, what does the research literature conclude about the best way to ensure that trainees remember what they learn?).

ADDING VALUE The bottom line is that today's employers want their human resource managers to *add value* by boosting profits and performance. A number of years ago, professors Dave Ulrich and Wayne Brockbank coined the phrase "HR Value Proposition."[76] They say human resource management's aim should be to add value. *Adding value* means helping the firm and its employees improve in a measurable way as a result of the human resource manager's actions.

Particularly today, adding value does not just mean cutting costs. It also entails improving the company's processes, aligning HR's activities with the company's strategy, and fostering employee engagement.[77] We'll see in this book how human resource practices do this.[78] For example, we'll use, in most chapters, HR as a Profit Center features, as well as special employee engagement, and human resource strategy discussions and cases to illustrate this.

Pandemics and People

A sign at an Amazon fulfillment center in Wisconsin says, "Work hard. Have fun. Make history." [79] Amazon is known for its evidence-based approach to boosting performance. In China, Alibaba advocates "996" for productivity: work 9 AM to 9 PM, six days a week. In both cases, employees are pushing back.

Important as performance is, in many organizations the pandemic (plus changing societal values) turned management's attention toward their people.[80] Many schools moved from emphasizing teaching and testing to supporting students' mental health. The AI software company Globality[81] shifted its human resource emphasis from technology and procedures, to supporting its employees. For example, their appraisal focus went from identifying and addressing weaknesses, to supporting and building employees' strengths.

Studies confirm the observation that the pandemic affected mental health.[82] One study followed 503 employees during the first four weeks when stay-at-home rules were in effect. The ensuing turmoil and the risk of getting sick triggered their anxiety. Anxiety in turn affected their abilities to get their jobs done, as well as their home life and health (in terms of physical complaints).

A recent survey of HR leaders similarly found that such disruptions affected employees' health, trust between people, and teams, and feelings of inclusion.[83] One solution, it concludes, is to do more to build employer–employee relationships. Many believe this shift toward more balance on the "human" aspect of human resource management will continue.[84]

Strategic Human Resource Management

As the person ultimately responsible for having a command of the company's workforce competencies, and the knowledge to improve employees' performance, HR managers today are also expected to be involved in the company's longer-term or *strategic planning* activities. We will see in Chapter 3 (Human Resource Policy, Strategy, and Performance) that **strategic human resource management** means formulating and executing human resource policies and practices that produce the employee competencies and behaviors the company needs to achieve its strategic aims. We illustrate this throughout this book with Strategic Context discussions such as the following one.

strategic human resource management
Formulating and executing human resource policies and practices that produce the employee competencies and behaviors the company needs to achieve its strategic aims.

The Strategic Context: Building L.L.Bean

Strategic human resource management means formulating and executing human resource policies and practices that produce the employee competencies and behaviors the company needs to achieve its strategic aims.

L.L.Bean needs employees whose love of the outdoors helps them deal knowledgeably with customers, and its HR policies and practices attract and develop just that sort of employee.

Walter Bibikow/AGE Fotostock/SuperStock

L.L.Bean illustrates how companies do this. The heart of L.L.Bean's strategy has always been offering great outdoor equipment with outstanding service and expert advice. As its company history said, "L.L.Bean, Inc., quickly established itself as a trusted source for reliable outdoor equipment and expert advice. The small company grew. Customers spread the word of L.L.Bean's quality and service."[85]

To provide such service, L.L.Bean needs special people as employees, ones whose love of the outdoors helps them deal knowledgably and supportively with the company's customers. To paraphrase its website, L.L.Bean is looking for special employees, "innovative professionals with a love for the outdoors, a commitment to service and a shared excitement for the future."[86]

L.L.Bean's human resource policies and practices attract and develop just such employees. For one thing, the company knows just who to recruit. It wants passionate, sociable, friendly, outdoors-oriented applicants and employees.[87] To attract and cultivate these sorts of employee competencies and behaviors, the company uses multiple interviews to screen out applicants who might not fit in.[88] And L.L.Bean offers an outdoors-oriented work environment and competitive pay, and benefits that include outdoor clubs, sporting equipment to borrow, and outdoor courses and tours.[89]

To help encourage great employee service, L.L.Bean also provides a supportive environment. For example, when its web sales for the first time exceeded phone sales several years ago, L.L.Bean closed four local call centers, but arranged for the 220 employees to work from their homes. And instead of sending jobs abroad, the company keeps its jobs close to the town where Leon Leonwood Bean started his company about 100 years ago.[90] L.L.Bean's managers built the firm's strategy and success around courteous, expert service. They know that having the right employees is the key to its success, and that it takes the right blend of human resource practices to attract and support such employees.

The Human Resource Manager's Competencies

When asked, "Why do you want to be an HR manager?" many people basically say, "Because I'm a people person." Being sociable is certainly important, but it takes much more. Adapting organizational processes quickly and effectively to diminishing labor supplies, instituting companywide DEI efforts, crafting strategic plans, and conceptualizing and executing effective performance-enhancing programs requires a range of talents, not least of which is financial and business literacy.

What does it take to be a human resource manager today? The Society for Human Resource Management (SHRM) uses its *SHRM Body of Applied Skills and Knowledge*[91] to itemize the competencies, skills, and knowledge and expertise human resource managers need. SHRM groups the required competencies into Leadership, Interpersonal, and Business clusters. Here are the nine *behaviors/competencies* SHRM says today's HR manager should exhibit[92] (with some illustrative descriptions).

Leadership Competencies

- *Leadership & Navigation*. Ability to direct and contribute to initiatives and processes within the organization
- *Ethical Practice*. Ability to integrate core values. integrity. and accountability throughout all organizational and business practices
- *Diversity, Equity, & Inclusion*. Ability to advocate for a culturally diverse and inclusive workplace

Interpersonal Competencies

- *Relationship Management*. Ability to manage interactions to provide service and to support the organization
- *Communication*. Ability to effectively exchange information with stakeholders
- *Global Mindset*. Ability to operate within a global workforce

Business Competencies

- *Business Acumen*. Ability to understand and apply information with which to contribute to the organization's strategic plan
- *Consultation*. Ability to provide guidance to organizational stakeholders
- *Analytical Aptitude*. Ability to gather and analyze data to inform business decisions.

The Human Resource Manager's Required Knowledge Base[93]

SHRM also says human resource managers should have command of the *principles and practices of the functional areas of HR*, such as Talent Acquisition, and Total Rewards. The basic knowledge they need here includes, according to SHRM, knowledge of the principles and practices of:

- HR Strategy
- Talent Acquisition
- Employee Engagement & Retention
- Learning & Development
- Total Rewards
- Structure of the HR Function
- Organizational Effectiveness & Development
- Workforce Management
- Employee & Labor Relations
- Technology Management
- Managing a Global Workforce
- Diversity & Inclusion
- Risk Management
- Corporate Social Responsibility
- U.S. Employment Law & Regulations

HR Manager Certification

Many human resource managers use certification to demonstrate mastery of human resource management knowledge and competencies. There are at least two testing processes to achieve certification.

One is administered by the HR Certification Institute (*HRCI*), an independent certifying organization for human resource professionals (see www.hrci.org).[94] Through

HR managers can't just be good at traditional personnel tasks like hiring and training, but must "speak the CFO's language" by defending human resource plans in measurable terms.

Johner Images/Alamy Stock Photo

testing, HRCI awards several credentials, including Professional in Human Resources (PHR) and Senior Professional in Human Resources (SPHR). You can review HRCI's PHR *Exam Content Outline* at https://www.hrci.org/docs/default-source/web-files/phr-exam-content-outline.pdf?sfvrsn=13c44f61_28.[95] This lists the knowledge someone studying for the HRCI PHR certification exam needs to have in each area of human resource management. Knowledge areas include for example Business Management, and Talent Planning and Acquisition.

SHRM offers its own testing probably not but this text looks more crowded than the rest and certifications, awarding SHRM Certified Professionals and SHRM Senior Certified Professionals certifications, based on its own exams.[96] The exam is built around the *SHRM Body of Applied Skills and Knowledge*[97] functional knowledge, skills, and competencies.

LEARNING OBJECTIVE 1-5

Discuss why the manager's human resource philosophy is important.

The Manager's Human Resource Philosophy

People's actions are always based in part on the assumptions they make, and this is especially true in regard to human resource management. The basic assumptions you make about people—Can they be trusted? Do they dislike work? Why do they act as they do? How should they be treated?—together comprise your philosophy of human resource management. And every personnel decision you make—the people you hire, the training you provide, your leadership style, and the like—reflects (for better or worse) this basic philosophy.

Your Own Experiences, Education, Background, and Assumptions About People

How do you go about developing such a philosophy? To some extent, it's preordained. There's no doubt that you will bring to your job a philosophy based on your experiences, education, values, assumptions, and background. But your philosophy needn't be set in stone. It should evolve as you accumulate knowledge and experiences. For example, after a worker uprising in China at the Hon Hai-owned Foxconn plant that assembles Apple iPhones, the personnel philosophy at the plant softened in response to the workers' and Apple's discontent.[98] In any case, no manager should manage others without understanding the personnel philosophy that is driving their actions.

Top Management's Philosophy

One of the things molding your own philosophy is that of your organization's top management. While it may or may not be stated, it is usually communicated by the managers' actions and permeates every level and department in the organization. For example, here is part of the personnel philosophy of the founder of the Polaroid Corp., stated many years ago:

> To give everyone working for the company a personal opportunity within the company for full exercise of his talents—to express his opinions, to share in the progress of the company as far as his or her capacity permits, and to earn enough money so that the need for earning more will not always be the first thing on his mind. The opportunity, in short, to make his work here a fully rewarding and important part of his or her life.[99]

Similarly, when Google founders Larry Page and Sergey Brin began building Google, they set out to make it a great place to work. Google doesn't just offer abundant benefits and stock options.[100] Google's team of social scientists run experiments, for instance, to identify successful middle managers' skills.[101] The aim is to keep managers supportive, "Googlers" happy, and Google successful and growing. We'll look closer at how managers maintain positive employee relations in Chapter 13.

LEARNING OBJECTIVE 1-6
Outline the plan of this book.

The Plan of This Book

Practical Tools for Every Manager

First, this book emphasizes that human resource management is the *responsibility of every manager*—not just those in human resources. Throughout every page in this book, you'll therefore find an emphasis on practical material—on how to interview job candidates, discipline employees, and give performance feedback, for instance—that you as a manager will need to perform your day-to-day management responsibilities, even if you never spend one day as an HR manager. Special **HR Tools for Line Managers and Small Businesses** discussions highlight tools and practices any manager can use to improve performance at work. **Know Your Employment Law** discussions highlight the practical information all managers need to make better HR-related decisions at work.

The Features

In this book, we'll also use several features to highlight particularly important issues and to provide continuity from chapter to chapter. We've seen that employers expect human resource management practices to add value and improve performance. To illustrate this throughout the book, most chapters contain an illustrative **HR as a Profit Center** boxed feature. These show actual examples of how human resource management practices add measurable value—by reducing costs or boosting revenues. Special chapter-opener scenarios and **Strategic Context** discussions illustrate HR's role in achieving the company's strategic goals in most chapters. **Employee Engagement Guide for Managers** discussions show how managers improve employee engagement—and, thereby, organizational performance. **Diversity Counts** boxed features provide insights and guidelines for improving diversity, equity, and inclusion at work. **The New Normal** boxed features address continuing effects of the workplace changes the pandemic triggered, such as hybrid work.

Chapter Contents Overview

Following is a brief overview of the chapters and their content.

PART 1: INTRODUCTION

Chapter 1: Introduction to Human Resource Management. The manager's human resource management jobs; line and staff aspects of human resource management; important trends impacting human resource management today; what knowledge and competencies does it take to be a human resource manager? The plan of this book.

Chapter 2: Equal Opportunity Law and Action. What you should know about equal opportunity laws; how these laws affect activities such as interviewing, selecting employees, and evaluating performance; diversity, equity, and inclusion in action; *Know Your Employment Law* features highlight important laws in each chapter.

Chapter 3: Human Resource Policy, Strategy, and Performance. Developing human resource policies. What is strategic planning; strategic human resource management; building high-performance HR practices; tools for evidence-based HR; employee engagement at Kia Motors.

PART 2: RECRUITMENT, PLACEMENT, AND TALENT MANAGEMENT

Chapter 4: Job Analysis and the Talent Management Process. How to analyze a job; how to determine the human resource requirements of the job, as well as its specific duties; and what is talent management.

Chapter 5: Personnel Planning and Recruiting. Human resource planning; determining what sorts of people need to be hired; recruiting them.

Chapter 6: Employee Testing and Selection. Techniques you can use to ensure that you're hiring the right people.

Chapter 7: Interviewing Candidates. How to interview candidates effectively.

PART 3: TRAINING AND DEVELOPMENT

Chapter 8: Training and Developing Employees. Providing the training and development to ensure that your employees have the knowledge and skills needed to accomplish their tasks.

Chapter 9: Performance Management and Appraisal. Techniques you can use for appraising employee performance.

Chapter 10: Managing Careers and Retention. Causes of and solutions for employee turnover, and how to help employees manage their careers.

PART 4: COMPENSATION

Chapter 11: Establishing Strategic Pay Plans. How to develop equitable pay plans for your employees.

Chapter 12: Pay for Performance and Financial Incentives. Pay-for-performance plans such as financial incentives, merit pay, and incentives that help tie performance to pay.

Chapter 13: Benefits and Services. Providing benefits that make it clear the firm views its employees as long-term investments and is concerned with their welfare.

PART 5: ENRICHMENT TOPICS IN HUMAN RESOURCE MANAGEMENT

Chapter 14: Building Positive Employee Relations. Developing employee relations programs and employee involvement strategies; ensuring ethical and fair treatment through discipline and grievance processes.

Chapter 15: Labor Relations and Collective Bargaining. How to deal with unions, including the union organizing campaign; negotiating and agreeing upon a collective bargaining agreement between unions and management; and managing the agreement via the grievance process.

Chapter 16: Safety, Health, and Risk Management. How to make the workplace safe, including the causes of accidents; laws governing your responsibilities for employee safety and health; risk management methods.

Chapter 17: Managing Global Human Resources. Special topics in managing the HR side of multinational operations.

Chapter 18: Managing Human Resources in Small and Entrepreneurial Firms. Special topics for managing human resources in smaller firms.

Chapter Review

Chapter Section Summaries

1-1. All managers should be able to explain, **What is human resource management, and why is it important?** Reasons include helping managers avoid problems like hiring the wrong person for the job. And more important, it can help ensure that managers get results through people.

1-2. **There are Line and Staff Aspects of Human Resource Management.** Line managers' human resource duties include placing the right person on the job, and orienting and training new employees. Staff HR managers advise on matters such as labor relations and employee testing.

1-3. Trends in the **Environment of Human Resource Management** are influencing what human resource managers do and how they do it. Workforce and demographic changes mean that the workforce is becoming older and more diverse. Globalization means more competition, and more competition means more pressure to lower costs and to make employees more productive and quality conscious. Technology requires employees to be technologically well informed, and enables employers to improve their human resource processes by applying new technological tools.

1-4. In terms of the **Human Resource Manager Today,** employers expect their human resource management teams to focus more on big-picture issues, including instituting human resource policies and practices that support the companies' strategic objectives, and to foster high performance through engaged employees. They should be able to apply evidence-based human resource management, which means the use of data, facts, analytics, scientific rigor, critical evaluation, and critically evaluated research/case studies to support human resource management proposals, decisions, practices, and conclusions.

1-5. The **Manager's Human Resource Philosophy** is important because values and assumptions guide peoples' behaviors. One's own experiences and background, and top management's human resources philosophy tend to mold one's own philosophy.

1-6. In understanding the overall **Plan of this Book,** keep several themes in mind: that human resource management is the responsibility of every manager, that the workforce is increasingly diverse, that employers and their human resource managers face the need to manage in challenging economic times, and must be able to defend their plans and contributions in measurable terms—to use evidence-based management—to show they've added value.

Discussion Questions

1-1. Explain what HR management is and how it relates to the management process.

1-2. Give examples of how HR management concepts and techniques can be of use to all managers.

1-3. Illustrate the HR management responsibilities of line and staff managers.

1-4. Compare the authority of line and staff managers. Give examples of each.

Individual and Group Activities

1-5. Working individually or in groups, develop outlines showing how trends like workforce diversity, technological innovation, globalization, and changes in the nature of work have affected the college or university you are attending now. Present in class.

1-6. Working individually or in groups, contact the HR manager of a local bank. Ask the HR manager what they're doing to work as a strategic partner to manage human resources, given the bank's strategic goals and objectives. Back in class, discuss the responses of the different HR managers.

1-7. Working individually or in groups, interview an HR manager. Based on that interview, write a short presentation regarding HR's role today in building competitive organizations.

1-8. Working individually or in groups, bring several business publications such as *Bloomberg Businessweek* and *The Wall Street Journal* to class, or access them in class via the Web. Based on their contents, compile a list titled "What HR Managers and Departments Do Today."

1-9. Based on your personal experiences, list 10 examples showing how you used (or could have

used) human resource management techniques at work or school.

1-10. Laurie Siegel, former senior vice president of human resources for Tyco International, took over her job just after numerous charges forced the company's previous board of directors and top executives to leave the firm. Hired by new CEO Edward Breen, Siegel had to tackle numerous difficult problems starting the moment she assumed office. For example, she had to help hire a new management team. She had to do something about what the outside world viewed as a culture of questionable ethics at her company. And she had to do something about the company's top-management compensation plan, which many felt contributed to the allegations by some that some former company officers had used the company as a sort of private ATM.

Siegel came to Tyco after a very impressive career. For example, she had been head of executive compensation at Allied Signal, and was a graduate of the Harvard Business School. But, as strong as her background was, she obviously had her work cut out for her when she took the senior vice president of HR position at Tyco.

Working individually or in groups, conduct an Internet search and/or library research to answer the following questions: What human resource management–related steps did Siegel take to help get Tyco back on the right track? Do you think she took the appropriate steps? Why or why not? What, if anything, do you suggest she do now?

1-11. The HRCI *Exam Content Outline* website https://www.hrci.org/docs/default-source/web-files/phr-exam-content-outline.pdf?sfvrsn=13c44f61_28 lists the knowledge someone studying for the HRCI PHR certification exam needs to have in each area of human resource management (such as in Business Management, and in Talent Planning and Acquisition.)[102] In groups of several students, do four things: (1) review the *Exam Content Outline* on that website; (2) identify the material in this chapter that relates to the Exam Content Outline's required "Knowledge Of" lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.

Experiential Exercise

HR and "The Profit"

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Purpose: The purpose of this exercise is to provide practice in identifying and applying the basic concepts of human resource management by illustrating how managers use these techniques in their day-to-day jobs.

Required Understanding: Be thoroughly familiar with the material in this chapter, and with at least one or two episodes of CNBC's *The Profit* with Marcus Lemonis, www.cnbc.com/the-profit/. (For other sources of episodes, see www.bing.com/videos/search?q=The+Profuit&qs=n&form=QBVLPG&sp=-1&ghc=1&pq=the+profuit&sc=10-11&sk=&cvid=45CCE3CDDDBD45BF86083D99AE92F641&ghsh=0&ghacc=0&ghpl=.)

How to Set Up the Exercise/Instructions**:**

- Divide the class into teams of several students.
- Read this: As you may know by watching billionaire Marcus Lemonis as he works with actual small businesses in which he's taken an ownership share, human resource management often plays an important role in what he and the business owners and managers need to do to be successful. For example, at Grafton Furniture, a lack of clarity about who does what (a lack of up-to-date job descriptions) leads to inadequate supervision of some ongoing orders and to lower profit margins. Questions also arise at Grafton about, for instance, the effectiveness of the training that some managers (including the owner's son) have received.
- Watch several of these shows (or reruns of the shows), and then meet with your team and answer the following questions:

1-12. What specific HR functions (recruiting, interviewing, training, and so on) can you identify Mr. Lemonis addressing on this show? Make sure to give specific examples based on the show.

1-13. What specific HR functions can you identify as being problematical in this company? Again, please give specific answers.

1-14. In terms of HR functions (such as recruiting, selection, interviewing, compensating, appraising, and so on), what exactly would you recommend doing to improve this company's performance?

1-15. Present your team's conclusions to the class.

Application Case

Jack Nelson's Problem[103]

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As a new member of the board of directors for a local bank, Jack Nelson was being introduced to all the employees in the home office. When he was introduced to Karen Liu, he was curious about her work and asked her what the machine she was using did. Liu replied that she really did not know what the machine was called or what it did. She explained that she had only been working there for 2 months. However, she did know precisely how to operate the machine. According to her supervisor, she was an excellent employee.

At one of the branch offices, the supervisor in charge, Shanice Dorsett, spoke to Nelson confidentially, telling him that "something was wrong," but she didn't know what. For one thing, she explained, employee turnover was too high, and no sooner had one employee been put on the job than another one resigned. With customers to see and loans to be made, she continued, she had little time to work with the new employees as they came and went.

All branch supervisors hired their own employees without communication with the home office or other branches. When an opening developed, the supervisor tried to find a suitable employee to replace the worker who had quit.

After touring the 22 branches and finding similar problems in many of them, Nelson wondered what the home office should do or what action he should take. The banking firm generally was regarded as being a well-run institution that had grown from 27 to 191 employees during the past 8 years. The more he thought about the matter, the more puzzled Nelson became. He couldn't quite put his finger on the problem, and he didn't know whether to report his findings to the president.

Questions

1-16. What do you think is causing some of the problems in the bank's home office and branches?

1-17. Do you think setting up an HR unit in the main office would help?

1-18. What specific functions should an HR unit carry out? What HR functions would then be carried out by supervisors and other line managers? What role should the Internet play in the new HR organization?

Continuing Case

Carter Cleaning Company

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Introduction

A main theme of this book is that human resource management activities like recruiting, selecting, training, and rewarding employees are not just the job of a central HR group but rather a job in which every manager must engage. Perhaps nowhere is this more apparent than in the typical small service business. Here the owner/manager usually has no HR staff to rely on. However, the success of his or her enterprise (not to mention his or her family's peace of mind) often depends largely on the effectiveness through which workers are recruited, hired, trained, evaluated, and rewarded. Therefore, to help illustrate and emphasize the front-line manager's HR role, throughout this book we will use a continuing case based on an actual small business in the southeastern United States. Each chapter's segment of the case will illustrate how the case's main player—owner/manager Jennifer Carter—confronts and solves personnel problems each day at work by applying the concepts and techniques of that particular chapter. Here is background information that you will need to answer questions that arise in subsequent chapters. (We also present a second, unrelated "application case" case incident in each chapter.)

Carter Cleaning Centers

Jennifer Carter graduated from State University in June 2021 and, after considering several job offers, decided to do what she always planned to do—go into business with her father, Jack Carter.

Jack Carter opened his first laundromat in 2001and his second in 2005. The main attraction of these coin laundry businesses for him was that they were capital—rather than labor—intensive. Thus, once the investment in machinery was made, the stores could be run with just one unskilled attendant and none of the labor problems one normally expects from being in the retail service business.

The attractiveness of operating with virtually no skilled labor notwithstanding, Jack had decided by 2007 to expand the services in each of his stores to include the dry cleaning and pressing of clothes. He embarked, in other words, on a strategy of "related diversification" by adding new services that were related to and consistent with his existing coin laundry activities. He added these for several reasons. He wanted to better utilize the unused space in the rather large stores he currently had under lease. Furthermore, he was, as he put it, "tired of sending out the dry cleaning and pressing work that came in from our coin laundry clients to a dry cleaner 5 miles away, who then took most of what should have been our profits." To reflect the new, expanded line of services, he renamed each of his two stores Carter Cleaning Centers and was sufficiently satisfied with their performance to open four more of the same type of stores over the next 5 years. Each store had its own on-site manager and, on average, about seven employees and annual revenues of about $650,000. It was this six-store chain that Jennifer joined after graduating.

Her understanding with her father was that she would serve as a troubleshooter/consultant to the elder Carter with the aim of both learning the business and bringing to it modern management concepts and techniques for solving the business's problems and facilitating its growth.

Questions

1-19. Make a list of five specific HR problems you think Carter Cleaning will have to grapple with.

1-20. What would you do first if you were Jennifer?

Writing Assignments

1-21. From a practical point of view, why is it important for all managers and future managers to have a good command of human resource management concepts and techniques?

1-22. Think of some companies that you are familiar with or that you've read about where you think the human resource managers have been successful in "adding value." What do the HR managers do to lead you to your conclusion?

Key Terms

organization, 3
manager, 3
managing, 3
management process, 3
human resource management (HRM), 3
authority, 5
line authority, 5
staff authority, 5
line manager, 5
staff manager, 5
employment engagement, 9
ethics, 11
strategic human resource management, 13

Endnotes

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2 Equal Opportunity Law and Action

WHERE ARE WE NOW . . .

Every HR action you take as a manager, from interviewing applicants to training, appraising, and rewarding them, has equal employment implications. Therefore, the purpose of this chapter is to provide you with the knowledge to deal more effectively with equal employment questions on the job. The main topics we cover are **Introduction; Equal Opportunity Laws Enacted from 1964 to 1991; The Laws Enacted from 1991 to the Present; Defenses Against Discrimination Allegations; The EEOC Enforcement Process;** and **Diversity, Equity, and Inclusion in Action**.

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

2-1 **Summarize** significant events in the emergence of Diversity, Equity, and Inclusion.

2-2 **List** the basic features of Title VII of the 1964 Civil Rights Act and at least five other early equal employment laws.

2-3 **List** the basic features of at least five post-1990 employment laws, and explain, with examples, how to avoid accusations of sexual harassment at work.

2-4 **Illustrate** two defenses you can use in the event of discriminatory practice allegations, and list specific discriminatory personnel management practices in recruitment, selection, promotion, transfer, layoffs, and benefits.

2-5 **List** the steps in the EEOC enforcement process.

2-6 **Define** DEI effort and give examples of HR actions that support it.

Starbucks recently settled a case with the Equal Employment Opportunity Commission.[1] The EEOC had alleged that the chain's store-level promotions were racially discriminatory, based on data from several years ago. Starbucks agreed to make its promotion process more open and transparent, and to make other changes.

Hardly a day goes by without such equal opportunity lawsuits at work.[2] Performing day-to-day supervisory tasks like hiring employees without understanding these laws is fraught with peril.

LEARNING OBJECTIVE 2-1

Summarize significant events in the emergence of Diversity, Equity, and Inclusion.

Introduction

Laws barring discrimination against minorities in the United States are nothing new. The Fifth Amendment to the U.S. Constitution (ratified in 1791) states that "no person shall be deprived of life, liberty, or property, without due process of the law." The Thirteenth Amendment (1865) outlawed slavery, and courts have held that it bars racial discrimination. The Civil Rights Act of 1866 gives all persons the same right to make and enforce contracts and to benefit from U.S. laws.[3]

However as a practical matter, Congress and presidents avoided dramatic action on implementing equal employment laws until the early 1960s. At that point, civil unrest among minorities and women and changing traditions prompted them to act. Congress passed many new civil rights laws. One of these, as we'll see, was Title VII of the 1964 Civil Rights Act. President Lyndon Johnson signed it into law in 1964.

In the ensuing years, America's workforce became increasingly diverse.[4] Societal values evolved. Then 2020 saw the deaths of George Floyd and others.[5] Word of the protests triggered by George Floyd's death spread quickly. One analysis of Twitter traffic from May 27, 2020, to June 4, 2020, found 15 million protest-related tweets.[6] The tweet locations showed how the protests had spread. For example, by June 2 there were about 5,500 protest-related tweets from Minneapolis, 23,000 from Washington, DC, 5,000 from Los Angeles, and about 1,500 from the United Kingdom. Discussions in America of diversity, equity, and inclusion were not new. But almost overnight, "DEI went from a nice to have to a must-have."[7] Eighty-two percent of chief HR officers surveyed recently cited DEI as their top concern.[8]

LEARNING OBJECTIVE 2-2

List the basic features of Title VII of the 1964 Civil Rights Act and at least five other early equal employment laws.

Equal Opportunity Laws Enacted from 1964 to 1991

Title VII of the 1964 Civil Rights Act

Title VII of the 1964 Civil Rights Act
The section of the act that says an employer cannot discriminate on the basis of race, color, religion, sex, or national origin with respect to employment.

As noted earlier, **Title VII of the 1964 Civil Rights Act** was one of the first contemporary civil rights laws. As amended by the 1972 Equal Employment Opportunity Act, Title VII states that an employer cannot discriminate based on race, color, religion, sex, or national origin. Specifically, it states that it shall be an unlawful employment practice for an employer:

1. To fail or refuse to hire or to discharge an individual or otherwise to discriminate against any individual with respect to his or her compensation, terms, conditions, or privileges of employment, because of such individual's race, color, religion, sex, or national origin.
2. To limit, segregate, or classify employees or applicants for employment in any way that would deprive or tend to deprive any individual of employment opportunities or otherwise adversely affect his or her status as an employee, because of such individual's race, color, religion, sex, or national origin.

Title VII bars discrimination on the part of most employers, including all public or private employers of 15 or more persons and most labor unions. It also covers all private and public educational institutions, the federal government, and state and local governments. It bars public and private employment agencies from failing or refusing to refer for employment any individual because of race, color, religion, sex, or national origin.

Equal Employment Opportunity Commission (EEOC)
The commission, created by Title VII, empowered to investigate job discrimination complaints and sue on behalf of complainants.

Title VII established the **Equal Employment Opportunity Commission (EEOC)** to administer and enforce the Civil Rights Act at work. It consists of five members appointed by the president with the advice and consent of the Senate. Each member serves a 5-year term. In popular usage, the EEOC also includes the thousands of staff the EEOC has around the United States. They receive and investigate job discrimination complaints from aggrieved individuals. When the EEOC finds reasonable cause that the charges are justified, it attempts (through conciliation) to reach an agreement.[9] If this fails, it can go to court. The EEOC may file discrimination charges on behalf of aggrieved individuals, or the individuals may file themselves.[10] We'll discuss the EEOC procedure later in this chapter.

WHO DO EEOC LAWS PROTECT? According to the EEOC, "[A]pplicants, employees and former employees are protected from employment discrimination based on race, color, religion, sex (including pregnancy, sexual orientation, or gender identity), national origin, age (40 or older), disability and genetic information (including family medical history)."[11]

The EEOC is also specific in what it means by "minority." "According to EEOC guidelines, **minority** is used to mean four particular groups who share a race, color, or national origin. These groups are . . . " American Indian or Alaskan Native; Asian or Pacific Islander; Black (except Hispanic); and Hispanic.[12]

minority
According to EEOC guidelines, four particular groups who share a race, color, or national origin, specifically American Indian or Alaskan Native; Asian or Pacific Islander; Black (except Hispanic); and Hispanic.

Executive Orders

Various U.S. presidents have signed executive orders expanding equal employment in federal agencies. For example, the Johnson administration (1963–1969) issued Executive Orders 11246 and 11375. These required that government contractors with contracts of more than $50,000 and 50 or more employees take **affirmative action** to ensure employment opportunities for those who may have suffered past discrimination. They also established the **Office of Federal Contract Compliance Programs (OFCCP)**. It implements the orders and ensures compliance.[13]

affirmative action
Steps that are taken for the purpose of eliminating the present effects of past discrimination.

Office of Federal Contract Compliance Programs (OFCCP)
This office is responsible for implementing the executive orders and ensuring compliance of federal contractors.

Equal Pay Act of 1963

Under the **Equal Pay Act of 1963** (amended in 1972), it is unlawful to discriminate in pay on the basis of sex when jobs involve equal work; require equivalent skills, effort, and responsibility; and are performed under similar working conditions. Pay differences derived from seniority systems, merit systems, and systems that measure earnings by production quantity or quality or from any factor other than sex do not violate the act. Unfortunately, this act notwithstanding, women still earn only about 86% as much as men in similar jobs; we'll address this inequity and how to deal with it in our chapter on establishing strategic pay plans.

Equal Pay Act of 1963
The act requiring equal pay for equal work, regardless of sex.

Age Discrimination in Employment Act of 1967

The **Age Discrimination in Employment Act of 1967 (ADEA)** made it unlawful to discriminate against employees or applicants who are between 40 and 65 years of age. Subsequent amendments effectively ended most mandatory retirement at age 65. Most states and local agencies, when acting as employers, must also adhere to the ADEA.[14]

You can't get around the ADEA by replacing employees who are, say, 60 with someone over 40. In one case the U.S. Supreme Court held that an employee who is over 40 years of age might sue for discrimination if a "significantly younger" employee replaces him or her, even if the replacement is also over 40. The Court didn't specify what "significantly younger" meant. However, the plaintiff was replaced by someone 16 years younger.[15]

Younger managers especially may have to guard against age prejudices. For example, Staples fired a 64-year-old man, saying he stole a bell pepper. He sued for age discrimination. It transpired that a Staples manager had told colleagues to "take a closer look at the older people" and "write them up and get rid of them." The fired employee won his case (for $16 million) and an appeal.[16] It's advisable to have antiharassment policies addressing older employees. For example ban derogatory use of words like "grandpa."[17]

Similarly, recruitment ads often use phrases like "applicants should have received their degrees 2020–2022," or "should have 4–6 years' experience." While not always illegal, such phrases sometimes signal, "if you're over 40, don't apply."[18] Age discrimination at large tech firms may exceed that for gender or race.[19]

Age Discrimination in Employment Act of 1967 (ADEA)
The act prohibiting arbitrary age discrimination and specifically protecting individuals over 40 years old.

Vocational Rehabilitation Act of 1973

The **Vocational Rehabilitation Act of 1973** requires employers with federal contracts of more than $2,500 to take affirmative action in employing persons with disabilities. It does not require hiring unqualified people. It does require an employer to take steps to accommodate a worker with a disability, unless doing so imposes an undue hardship on the employer.

Vocational Rehabilitation Act of 1973
The act requiring certain federal contractors to take affirmative action for disabled persons.

Pregnancy Discrimination Act of 1978

Pregnancy Discrimination Act
An amendment to Title VII of the Civil Rights Act that prohibits sex discrimination based on "pregnancy, childbirth, or related medical conditions."

The **Pregnancy Discrimination Act** of 1978 prohibits using pregnancy, childbirth, or related medical conditions to discriminate in hiring, promotion, suspension, or discharge, or in any term or condition of employment. Furthermore, under the act, if an employer offers its employees disability coverage, then it must treat pregnancy and childbirth like any other disability, and include it in the plan as a covered condition.[20]

As one example, a Chipotle restaurant let go an employee. She told the jury that despite a history of positive performance feedback, her manager allegedly began harassing her when she said she was pregnant. For example, she was made to announce bathroom breaks to coworkers.

The jury awarded her actual losses plus $500,000 in punitive damages.[21] The bottom line is that managers should base "any [personnel] decision on whether an employee can do the job and on medical documentation, not on a manager's interpretation."[22]

Federal Agency Guidelines

Uniform Guidelines
Guidelines issued by federal agencies charged with ensuring compliance with equal employment federal legislation explaining recommended employer procedures in detail.

The EEOC, Civil Service Commission, Department of Labor, and Department of Justice together issued **Uniform Guidelines**.[23] Periodically updated, these set forth "highly recommended" procedures for things like employee selection and record keeping. As an example, they specify that employers must *validate* any employment selection devices (like tests) that screen out disproportionate numbers of women or minority group members, and they explain how to do so. (We explain this procedure in Chapter 6.) The American Psychological Association has its own (non-legally binding) Standards for Educational and Psychological Testing.

Early Court Decisions Regarding Equal Employment Opportunity

Several court decisions between 1964 and 1991 helped clarify courts' interpretations of equal employment opportunity (EEO) laws such as Title VII.

GRIGGS V. DUKE POWER COMPANY *Griggs* was a landmark case because the Supreme Court used it to define unfair discrimination. Lawyers sued the Duke Power Company on behalf of Willie Griggs, an applicant for a job as a coal handler. The company required its coal handlers to be high school graduates. Griggs claimed this requirement was illegally discriminatory. He said it wasn't related to success on the job, and it resulted in more Blacks than Whites being rejected for these jobs. Griggs won the case. The Court's decision was unanimous. In his written opinion, Chief Justice Burger laid out three crucial guidelines affecting equal employment legislation.

- First, the Court ruled that the *discrimination does not have to be overt to be illegal*. The plaintiff does not have to show that the employer intentionally discriminated against the employee or applicant. Instead, the plaintiff just has to show that discrimination took place.
- Second, the Court held that an employment practice (in this case, requiring the high school degree) *must be job related* if it has an unequal impact on members of a **protected class**. (For example, if arithmetic is not required to perform the job, don't test for arithmetic.)

protected class
Persons such as minority group members and women protected by equal opportunity laws, including Title VII.

- Third, Chief Justice Burger's opinion placed the *burden of proof on the employer* to show that the hiring practice is job related. Thus, the employer must show that the employment practice (in this case, requiring a high school degree) is necessary for satisfactory job performance if the practice discriminates against members of a protected class. Said Justice Burger:

> The act proscribes not only overt discrimination, but also practices that are fair in form, but discriminatory in operation. The touchstone is business necessity. If an employment practice which operates to exclude Negroes cannot be shown to be related to job performance, the practice is prohibited.[24]

For employers, *Griggs* established these five principles:

1. A test or other selection practice must be job related, and the burden of proof is on the employer.
2. An employer's intent not to discriminate is irrelevant.[25]
3. If a practice is "fair in form but discriminatory in operation," the courts will not uphold it.
4. *Business necessity* is the defense for any existing program that has adverse impact. The court did not define business necessity.
5. Title VII does not forbid testing. However, the test must be job related (valid), in that performance on the test must relate to performance on the job.

ALBEMARLE PAPER COMPANY V. MOODY In the *Albemarle* case, the Court provided more details on how employers could prove that screening tools relate to job performance.[26] For example, the Court said that if an employer wants to test candidates for a job, then the employer should first clearly document the job's duties and responsibilities. Furthermore, the job's performance standards should be clear and unambiguous. That way, the employer can identify which employees are performing better than others. The Court's ruling also established the EEOC (now Federal) Guidelines on validation as the procedures for validating employment practices.

LEARNING OBJECTIVE 2-3

List the basic features of at least five post-1990 employment laws, and explain, with examples, how to avoid accusations of sexual harassment at work.

The Laws Enacted from 1991 to the Present

The Civil Rights Act of 1991

Several subsequent Supreme Court rulings in the 1980s limited the protection of women and minority groups under equal employment laws. For example, they raised the plaintiff's burden of proving that the employer's acts were in fact discriminatory. This prompted Congress to pass a new Civil Rights Act. President George H. W. Bush signed the **Civil Rights Act of 1991 (CRA 1991)** into law in 1991. The effect of CRA 1991 was to roll back equal employment law to where it stood before the 1980s decisions and to place more responsibility on employers.

Civil Rights Act of 1991 (CRA 1991)
The act that places the burden of proof back on employers and permits compensatory and punitive damages.

BURDEN OF PROOF First, CRA 1991 addressed the issue of *burden of proof*. Burden of proof—what the plaintiff must show to establish possible illegal discrimination, and what the employer must show to defend its actions—plays a central role in equal employment cases.[27] Today, in brief, once an applicant or employee demonstrates that an employment practice (such as "must lift 100 pounds") has an adverse impact on a particular group, then the burden of proof shifts to the employer, who must show that the challenged practice is job related.[28] For example, the employer has to show that lifting 100 pounds is required for performing the job in question, and that the business could not run efficiently without the requirement—that it is a business necessity.[29]

MONEY DAMAGES Before CRA 1991, victims of *intentional* discrimination (which lawyers call *disparate treatment*) who had not suffered financial loss and who sued under Title VII could not then sue for compensatory or punitive damages. All they could expect was to have their jobs reinstated (or to get a particular job). They were also eligible for back pay, attorneys' fees, and court costs.

CRA 1991 makes it easier to sue for *money damages* in such cases. It provides that an employee who is claiming intentional discrimination can ask for (1) compensatory damages, and (2) punitive damages, if they can show the employer engaged in discrimination "with malice or reckless indifference to the federally protected rights of an aggrieved individual."[30]

"mixed-motive" case
A discrimination allegation case in which the employer argues that the employment action taken was motivated not by discrimination, but by some nondiscriminatory reason such as ineffective performance.

MIXED MOTIVES Some employers in **"mixed-motive" cases** had taken the position that even though their actions were discriminatory, other factors like the employee's dubious behavior made the job action acceptable. Under CRA 1991, an employer cannot

avoid liability by proving it would have taken the same action—such as terminating someone—even without the discriminatory motive.[31] *If there is any such motive, the practice may be unlawful*.[32]

The Americans with Disabilities Act

Americans with Disabilities Act (ADA)
The act requiring employers to make reasonable accommodations for disabled employees; it prohibits discrimination against disabled persons.

The **Americans with Disabilities Act (ADA)** of 1990 [33] prohibits employers with 15 or more workers from discriminating against qualified individuals with disabilities, with regard to applications, hiring, discharge, compensation, advancement, training, or other terms, conditions, or privileges of employment.[34] It also says employers must make "reasonable accommodations" for physical or mental limitations, unless doing so imposes an "undue hardship" on the business.

The ADA does not list specific disabilities. Instead, EEOC guidelines say someone is disabled when the person has a physical or mental impairment that "substantially limits" one or more major life activities. Initially, impairments included any physiological disorder or condition, cosmetic disfigurement, or anatomical loss affecting one or more of several body systems, or any mental or psychological disorder. However, the list is growing.[35] (For example a Massachusetts court held that firing a qualified medical marijuana user may qualify for disability discrimination.)[36]

The act specifies conditions that it does *not* regard as disabilities. These include homosexuality, compulsive gambling, pyromania, and certain disorders resulting from the current illegal use of drugs.[37]

Mental disabilities account for the greatest number of ADA claims.[38] Under EEOC ADA guidelines, "mental impairment" includes "any mental or psychological disorder, such as . . . emotional or mental illness." Examples include major depression, anxiety disorders, and personality disorders. The ADA also protects employees with intellectual disabilities, including those with IQs below 70–75.[39] The guidelines say employers should be alert to the possibility that traits normally regarded as undesirable (such as chronic lateness, hostility, or poor judgment) may reflect mental impairments. Reasonable accommodation might then include putting barriers between work spaces.

qualified individuals
Under ADA, those who can carry out the essential functions of the job.

QUALIFIED INDIVIDUAL Just being disabled doesn't qualify someone for a job, of course. Instead, the act prohibits discrimination against **qualified individuals**—those who, with (or without) a reasonable accommodation, can carry out the *essential functions* of the job. The individual must have the requisite skills, educational background, and experience. A job function is essential when, for instance, it is the reason the position exists, or it is so highly specialized that the employer hires the person for his or her expertise or ability to perform that particular function. For example, when an Iowa highway worker had an on-the-job seizure, his driver's license was suspended. The court ruled he had no ADA claim because he couldn't perform the essential functions of the job.[40]

REASONABLE ACCOMMODATION If the individual can't perform the job as currently structured, the employer must make a "reasonable accommodation" unless doing so would present an "undue hardship."[41] Reasonable accommodation might include redesigning the job, modifying work schedules, or modifying or acquiring equipment or other devices; widening door openings or permitting telecommuting are examples.[42] For example, about 70% of working-age adults with vision impairments are unemployed or underemployed. Existing technologies such as screen-reading programs might enable most to work successfully.[43] In one classic case, a Walmart door greeter with a bad back asked if she could sit on a stool while on duty. The store said no. The federal court agreed door greeters must act in an "aggressively hospitable manner," which can't be done from a stool.[44] Standing was an essential job function.

Employers can use technology and common sense to make reasonable accommodation (see Figure 2-1).

FIGURE 2-1 Examples of How to Provide Reasonable Accommodation

- Employees with *mobility or vision impairments* may benefit from voice-recognition software.
- Word-prediction software suggests words based on context with just one or two letters typed.
- Real-time translation captioning enables employees to participate in meetings.
- Vibrating text pagers notify employees when messages arrive.
- Arizona created a disability-friendly website to help link prospective employees and others to various agencies.

THE ADA AMENDMENTS ACT OF 2008 (ADAAA) Employers traditionally prevailed in about 96% of Federal circuit court ADA decisions.[45] One case typifies what plaintiffs faced. An assembly worker sued Toyota, arguing that carpal tunnel syndrome prevented her from doing her job.[46] The U.S. Supreme Court ruled that the ADA covers carpal tunnel syndrome only if her impairments affect not just her job performance, but also her daily living activities. The employee admitted that she could perform personal chores such as washing her face and fixing breakfast. The Court said the disability must be central to the employee's daily living (not just to his or her job).[47]

The ADA Amendments Act of 2008 made it easier for employees to show that their disabilities are influencing one of their "major life activities," such as washing.[48] Many employers therefore redoubled their efforts to ensure they're complying with the ADA.[49] For example, Walgreens tries to fill at least one-third of the jobs at its large distribution centers with people with disabilities.[50]

Figure 2-2 summarizes some important ADA guidelines for managers and employers.

FIGURE 2-2 ADA Guidelines for Managers and Employers

- *Do not* deny a job to an individual with a disability if the person is qualified and able to perform the essential job functions.
- *Make* a reasonable accommodation unless doing so would result in undue hardship.
- *Know* what you can ask applicants. In general, you may *not* make preemployment inquiries about a person's disability before making an offer. However, you *may* ask questions about the person's ability to perform essential job functions.
- *Itemize* essential job functions on the job descriptions. In virtually any ADA legal action, a central question will be, what are the essential functions of the job?
- *Do not* allow misconduct or erratic performance (including absences and tardiness), even if that behavior is linked to the disability.

Technology enables employers to accommodate employees with disabilities.

DC Studio/Shutterstock

Uniformed Services Employment and Reemployment Rights Act

Under the Uniformed Services Employment and Reemployment Rights Act (1994), employers are generally required, among other things, to reinstate employees returning from military leave to positions comparable to those they had before leaving.[51]

Genetic Information Nondiscrimination Act of 2008 (GINA)

The Genetic Information Nondiscrimination Act of 2008 (GINA) prohibits discrimination by health insurers and employers based on people's genetic information. Specifically, it prohibits the use of genetic information in employment, prohibits the intentional acquisition of genetic information about applicants and employees, and imposes confidentiality requirements.[52]

State and Local Equal Employment Opportunity Laws

In addition to federal laws, all states and many local governments prohibit employment discrimination. The state or local laws usually cover employers (like those with less than 15 employees) not covered by federal legislation.[53] In New York City, for instance, city law applies to employers with as few as 4 employees (not 15, as under Title VII).[54]

State and local equal employment opportunity agencies (often called *Human Resources Commissions* or *Fair Employment Commissions*) play a role in equal employment compliance. When the EEOC receives a discrimination charge, it usually defers it for a limited time to the state and local agencies that have comparable jurisdiction. If that doesn't achieve satisfactory remedies, the charges go back to the EEOC for resolution.

Religious Discrimination[55]

Religious discrimination involves treating someone unfavorably because of his or her religious beliefs. The law protects not only people who belong to traditional, organized religions, such as Buddhism, Christianity, Hinduism, Islam, and Judaism, but also others who have sincerely held religious, ethical, or moral beliefs. Unless it would be an undue hardship on the employer, the employer must reasonably accommodate an employee's religious beliefs or practices. This applies to schedule changes or leave for religious observances, as well as to such things as religious dress or grooming practices. These might include, for example, wearing particular head coverings or other religious dress, or wearing certain hairstyles or facial hair (such as Rastafarian dreadlocks).

One question is how far employers must go to accommodate employees' religious practices. Here what is "reasonable" depends partly on how disruptive the accommodation would be. For example, such breaks might be too disruptive for high-speed continuous production lines.[56] However, the EEOC found reasonable cause that food giant Cargill violated Title VII by telling Muslim employees at one plant (without continuous production) they couldn't have prayer breaks.[57]

Trends in Discrimination Law

Some trends are expanding equal employment's impact, while others are forming new headwinds.

In terms of the former, the U.S. Supreme Court held that the Federal Defense of Marriage Act's exclusion of state-sanctioned, same-sex marriages was unconstitutional.[58] The Department of Labor (DOL) then held that under the Employee Retirement Income Security Act (ERISA), "The term 'spouse' will be read to refer to any individuals who are lawfully married under any state law, including those . . . who are [now] domiciled in a state that doesn't recognize such marriages."[59] In *Bostock v. Clayton County*, the Supreme Court held, in 2020, that Title VII prohibits

discrimination against employees based on sexual orientation and transgender status.[60] Several states require that employers permit people who don't identify with either the male or female gender to check off a third, "nonbinary" classification.[61]

Other decisions may produce headwinds. The U.S. Supreme Court upheld a Michigan constitutional amendment banning affirmative action in admissions to the state's public universities. This may allow voters in other states to eliminate affirmative action-based admissions to public universities.[62] In other decisions, the Court made it more difficult to bring a retaliation claim against an employer; it also more strictly defined "supervisor," reducing the likelihood someone could show that an employer was responsible for a "supervisor's" harassing behavior.[63] In 2022 the U.S. Supreme Court overturned *Roe v Wade*, which had held there is a federal constitutional right to an abortion.[64] Because *Roe* was rooted in an implied constitutional right to privacy, some constitutional experts argue that overturning *Roe* may also impact other Court precedents.[65]

Table 2-1 summarizes selected equal employment opportunity laws, actions, executive orders, and agency guidelines.

TABLE 2-1 Summary of Important Equal Employment Opportunity Laws*

Action	What It Does
Title VII of 1964 Civil Rights Act, as amended	Bars discrimination because of race, color, religion, sex, or national origin; instituted the EEOC.
Executive orders	Prohibit employment discrimination by employers with federal contracts of more than $10,000 (and their subcontractors); establish office of federal compliance; require affirmative action programs.
Federal agency guidelines	Guidelines cover discrimination based on sex, national origin, and religion, as well as on employee selection and other procedures such as test validation.
Supreme Court decisions: *Griggs v. Duke Power Co., Albemarle v. Moody*	Ruled that job requirements must be related to job success; that discrimination need not be overt to be proved; that the burden of proof is on the employer to prove the qualification is valid.
Equal Pay Act of 1963	Requires equal pay for men and women for performing similar work.
Age Discrimination in Employment Act of 1967	Prohibits discriminating against a person age 40 or over in any area of employment because of age.
State and local laws	Often cover organizations too small to be covered by federal laws.
Vocational Rehabilitation Act of 1973	Requires affirmative action to employ and promote qualified people with disabilities and prohibits discrimination against people with disabilities.
Pregnancy Discrimination Act of 1978	Prohibits discrimination in employment against pregnant women, or those with related conditions.
Vietnam Era Veterans' Readjustment Assistance Act of 1974	Requires affirmative action in employment for veterans of the Vietnam War era.
Ward Cove v. Atonio	Made it more difficult to prove a case of unlawful discrimination against an employer.
Americans with Disabilities Act of 1990	Strengthens the need for most employers to make reasonable accommodations for disabled employees at work; prohibits discrimination.
Civil Rights Act of 1991	Reverses various U.S. Supreme Court decisions; places burden of proof back on employer and permits compensatory and punitive money damages for discrimination.
ADA Amendments Act of 2008	Makes it easier for employee to show that his or her disability "substantially limits" a major life function.
Genetic Information Non-discrimination Act	Signed into law in May 2008, prohibits discriminating against employees and applicants based on their genetic information.
Respect for Marriage Act of 2022	This recognizes, for purposes of federal law, any marriage between two individuals that is valid under state law.

* The actual laws (and others) can be accessed via a search at www.usa.gov/Topics/Reference-Shelf/Laws.shtml, accessed January 1, 2023.

Sexual Harassment

The past few years have witnessed a dramatic increase in accusations and admissions of sexual harassment, embodied by the Me Too movement.[66]

sexual harassment
Harassment on the basis of sex that has the purpose or effect of substantially interfering with a person's work performance or creating an intimidating, hostile, or offensive work environment.

Under Title VII, **sexual harassment** generally refers to harassment on the basis of sex when such conduct has the purpose or effect of substantially interfering with a person's work performance or creating an intimidating, hostile, or offensive work environment. In one recent year, the EEOC received about 5,500 sexual harassment charges, about 22% of which were filed by men.[67] The U.S. Supreme Court has held, in *Oncale v. Sundowner Offshore Services Inc*., that same-sex sexual harassment is also actionable under Title VII.[68]

Federal Violence Against Women Act of 1994
The act that provides that a person who commits a crime of violence motivated by gender shall be liable to the party injured.

Under EEOC guidelines, employers have an affirmative duty to maintain workplaces free of sexual harassment and intimidation. CRA 1991 permits victims of intentional discrimination, including sexual harassment, to have jury trials and to collect compensatory damages for pain and suffering and punitive damages, where the employer acted with "malice or reckless indifference" to the person's rights.[69] The **Federal Violence Against Women Act of 1994** further provides that a person "who commits a crime of violence motivated by gender and thus deprives another" of her rights shall be liable to the party injured.

WHAT IS SEXUAL HARASSMENT? EEOC guidelines define *sexual harassment* as unwelcome sexual advances, requests for sexual favors, and other verbal or physical conduct of a sexual nature that takes place under any of the following conditions:

1. Submission to such conduct is made either explicitly or implicitly a term or condition of an individual's employment.
2. Submission to or rejection of such conduct by an individual is used as the basis for employment decisions affecting such individual.
3. Such conduct has the purpose or effect of unreasonably interfering with an individual's work performance or creating an intimidating, hostile, or offensive work environment.

PROVING SEXUAL HARASSMENT There are three main ways someone can prove sexual harassment:

1. ***Quid Pro Quo***. The most direct is to prove that rejecting a supervisor's advances adversely affected what the EEOC calls a "tangible employment action," such as hiring, firing, promotion, demotion, and/or work assignment. In one case, the employee showed that continued job success and advancement were dependent on her agreeing to the sexual demands of her supervisors. "Sexual harassment" generally requires that the behavior be pervasive or severe. Thus, in one case, the court ruled that although the supervisor had touched the employee's shoulder twice as he drove her back from work and also mentioned that she "owed him" for hiring her, she did not have a trialable sexual harassment claim.[70]
2. ***Hostile Environment Created by Supervisors***. The harassment need not have tangible consequences such as demotion. For example, one court found that a male supervisor's behavior had substantially affected a female employee's emotional and psychological ability to the point that she felt she had to quit her job. Therefore, even though the supervisor made no direct threats or promises in exchange for sexual advances, his advances interfered with the woman's performance and created an offensive work environment. That was sufficient to prove sexual harassment. Courts generally do not interpret as sexual harassment sexual relationships that arise during the course of employment but that do not have a substantial effect on that employment.[71] The U.S. Supreme Court also held that sexual harassment law doesn't cover ordinary "intersexual flirtation." In his ruling, Justice Antonin Scalia said courts must carefully distinguish between "simple teasing" and truly abusive behavior.[72]

3. ***Hostile Environment Created by Coworkers or Nonemployees***. Coworkers or nonemployees can trigger such suits. One court held that a mandatory sexually provocative uniform led to lewd comments by customers. When the employee refused to wear the uniform, she was fired. The employer couldn't show there was a job-related necessity for the uniform, and only female employees wore it. The court ruled that the employer, in effect, was responsible for the sexually harassing behavior. Such abhorrent client behavior is more likely when the clients are in positions of power, and when they think no one will penalize them.[73] Employers are also liable for the sexually harassing acts of nonsupervisory employees if the employer knew or should have known of the conduct.

WHEN IS THE ENVIRONMENT "HOSTILE"? Hostile environment sexual harassment generally means the intimidation, insults, and ridicule were severe enough to alter the employee's working conditions. Courts look at several things. These include whether the discriminatory conduct is *frequent or severe*; whether it is *physically threatening* or humiliating, or a mere offensive utterance; and whether it unreasonably *interferes* with an employee's work performance.[74] Courts also consider whether the employee subjectively *perceives* the work environment as being abusive. For example, did he or she welcome the conduct or immediately complain?[75]

SUPREME COURT DECISIONS The U.S. Supreme Court used a case called *Meritor Savings Bank, FSB v. Vinson* to endorse broadly the EEOC's guidelines on sexual harassment. Two other Supreme Court decisions further clarified sexual harassment law.

In the first, *Burlington Industries v. Ellerth*, the employee accused her supervisor of *quid pro quo* harassment. She said her boss propositioned and threatened her with demotion if she did not respond. He did not carry out the threats, and she was promoted. In the second case, *Faragher v. City of Boca Raton*, the employee accused the employer of condoning a hostile work environment. She said she quit her lifeguard job after repeated taunts from other lifeguards. The Court ruled in favor of the employees in both cases.

The Court's written decisions have two implications for employers and managers. First, in *quid pro quo* cases it is *not* necessary for the employee to suffer a tangible job action (such as a demotion) to win the case. Second, the Court laid out an important defense against harassment suits. It said the employer must show that it took "reasonable care" to prevent and promptly correct any sexually harassing behavior *and* that the employee unreasonably failed to take advantage of the employer's policy.

These decisions suggest an employer can defend itself against sexual harassment liability by showing two things:

- First, it must show "that the employer exercised reasonable care to *prevent* and *correct promptly* any sexually harassing behavior."[76]
- Second, it must demonstrate that the plaintiff "unreasonably *failed to take advantage* of any preventive or corrective opportunities provided by the employer." The employee's failure to use formal reporting systems would satisfy the second component.[77]

WHY THE LAW ISN'T ENOUGH Unfortunately, several problems can quash the legal requirements.

First, "Women perceive a broader range of socio-sexual behaviors (touching, for instance) as harassing."[78] In one study, about 58% of employees reported experiencing potentially harassment-type behaviors at work. About four times as many men as women found the behavior flattering or benign.[79] Sexual harassment training and policies can reduce this problem.[80]

Second, victims are often fearful (for instance, of not getting the job). In one study, the male interviewer asked female applicants improper questions such as "Do you have a boyfriend?" [81] All the applicants answered all the questions. When asked why, they said they felt more fear than anger in the interview.

Third, victims often won't complain. For example, two Air Force generals appeared before the U.S. Congress' House Armed Services Committee to explain how 23 instructors at an Air Force base could engage in unprofessional relationships or sexual assaults against 48 female trainees. The Air Force blamed both a climate of fear among female personnel (who believed that reporting the offenses to superior officers would be futile or counterproductive) and "a weak command structure."[82]

Finally, neither harassment training nor the HR department are always helpful. Many such training programs simply fulfill the employer's obligation to show that it educated employees about the firm's antiharassment policies. And, when they do receive harassment reports, many HR departments do nothing.[83] A more informal policy—such as allowing any manager with whom the complainant feels comfortable to address the matter with the alleged harasser—can be helpful.[84]

WHAT THE EMPLOYEE CAN DO First, complain. Remember that courts generally look to whether *the harassed employee used the employer's reporting procedures to file a complaint promptly*. If the employer has an effectively communicated complaint procedure, use it and then cooperate in the investigation.[85] In that context, steps an employee can take include the following:

1. Speak with the harasser and his or her boss, stating that the unwanted overtures should cease.
2. Inform your own supervisor.
3. If the problem does not cease, file written reports regarding the unwelcome conduct and unsuccessful efforts to get it to stop with the harasser's manager and/or the human resource director.
4. If these do not suffice, the accuser may file a claim (including online) with the EEOC. In serious cases, the employee can also consult an attorney about suing the harasser for assault and battery, intentional infliction of emotional distress, injunctive relief, and to recover compensatory and punitive damages.[86]

HR Tools for Line Managers and Small Businesses: How to Address Sexual Harassment[87]

- Take all complaints about harassment seriously.
- Issue a strong policy statement condemning such behavior. Describe the prohibited conduct, assure protection against retaliation, describe a confidential complaint process, and provide impartial investigation and corrective action.
- Take steps to prevent sexual harassment from occurring. For example, communicate to employees that the employer will not tolerate sexual harassment, and take immediate action when someone complains. After firing host Matt Lauer, NBC now requires any employees who know of inappropriate workplace relationships to report them to human resources.[88]
- Establish a management response system that includes an immediate reaction and investigation. Some organizations use an app from www.projectcallisto.org/ to facilitate recording and reporting sexual harassment.[89]
- Train supervisors and managers to increase their awareness of the issues, and discipline managers and employees involved in sexual harassment.

LEARNING OBJECTIVE 2-4

Illustrate two defenses you can use in the event of discriminatory practice allegations, and list specific discriminatory personnel management practices in recruitment, selection, promotion, transfer, layoffs, and benefits.

Defenses Against Discrimination Allegations

To understand how employers defend themselves against employment discrimination claims, we should first briefly review some basic legal terminology.

Discrimination law distinguishes between disparate *treatment* and disparate *impact*. *Disparate treatment* means intentional discrimination. Disparate treatment "exists where an employer treats an individual differently because that individual is a member of a particular race, religion, gender, or ethnic group."[90] A rule that says "We don't hire drivers over 60 years of age" exemplifies this.

Disparate impact means that "an employer engages in an employment practice or policy that has a greater adverse impact (effect) on the members of a protected group under Title VII than on other employees, regardless of intent."[91] A rule that says "Employees must have college degrees to do this particular job" exemplifies this (because more White males than some minority group members earn college degrees).

Disparate impact claims do not require proof of discriminatory intent. Instead, the plaintiff must show that the apparently neutral employment practice (such as requiring a college degree) creates an adverse impact—a significant disparity—between the proportion of (say) females in the available labor pool and the proportion you hire. Thus, disparate impact allegations require showing that the act produced an adverse impact. If it has, then the employer will probably have to defend itself (for instance, by arguing that there is a business necessity for the practice). Adverse impact "refers to the total employment process that results in a significantly higher percentage of a protected group in the candidate population being rejected for employment, placement, or promotion."[92] Having shown adverse impact, the burden of proof shifts to the employer.

The Central Role of Adverse Impact

adverse impact
The overall impact of employer practices that result in significantly higher percentages of members of minority groups and other protected groups being rejected for employment, placement, or promotion.

Showing that one of the employer's employment practices or policies has an **adverse impact** therefore plays a central role in discriminatory practice allegations.[93] Under Title VII and CRA 1991, a person who believes that (1) he or she was a victim of unintentional discrimination because of an employer's practices need only (2) establish a *prima facie* case of discrimination. This means showing, for instance, that the employer's selection procedures (like requiring a college degree for the job) did have an adverse impact on the protected minority group applicant.

So, for example, if a female applicant feels she was a victim of discrimination, the person need only show that the employer's selection process resulted in an adverse impact on her group. (For example, if 80% of the male applicants passed the test, but only 20% of the female applicants passed, a female applicant has a *prima facie* case proving adverse impact.) Then the burden of proof shifts to the employer. It becomes the employer's task to prove that its test (or application blank or the like) is a valid predictor of performance on the job.

In practice, an applicant or employee can use one of the following five methods to show that one of an employer's procedures (such as a selection test) has an adverse impact on a protected group.

Employees who believe they are victims of harassment should have a mechanism for filing a complaint.

Dmytro Zinkevych/123RF

disparate rejection rates
A test for adverse impact in which it can be demonstrated that there is a discrepancy between rates of rejection of members of a protected group and of others.

4/5ths rule
Federal agency rule that a protected group member selection rate less than 80% (4/5ths) of that for the group with the highest rate is evidence of adverse impact.

DISPARATE REJECTION RATES The **disparate rejection rate** method compares the rejection rates for a minority group and another group (usually the remaining nonminority applicants).[94]

Federal agencies use a **"4/5ths rule"** to assess disparate rejection rates: "A selection rate for any racial, ethnic, or sex group which is less than four-fifths or 80% of the rate for the group with the highest rate will generally be regarded as evidence of adverse impact, while a greater than four-fifths rate will generally not be regarded as evidence of adverse impact." For example, suppose the employer hires 60% of male applicants but only 30% of female applicants. Four-fifths of the 60% male hiring rate would be 48%. Because the actual female hiring rate of 30% is less than 48%, adverse impact exists as far as the federal agencies are concerned.[95]

THE STANDARD DEVIATION RULE Similarly, the courts have used the *standard deviation rule* to confirm adverse impact. (The standard deviation is a statistical measure of variability. It is a measure of the dispersion of a set of data from its mean. Suppose we calculate the average height of students in your management class. In simplest terms, the standard deviation helps to describe, among other things, how wide a range there is in height between the shortest and tallest students and the class's average student height.) In selection, the standard deviation rule holds that, as a rule of thumb, the difference between the numbers of minority candidates we *would have expected* to hire and whom *we actually hired* should be less than two standard deviations.

Consider this example. Suppose 300 applicants apply for 20 openings; 80 of the applicants are women, and the other 220 are men. We use our screening processes and hire 2 females and 18 males. Did our selection process have an adverse impact? To answer this, we can compute the standard deviation:

$$SD = \sqrt{\frac{(\textit{Number of minority applicants})}{(\textit{Number of total applicants})} \times \frac{(\textit{Number of nonminority applicants})}{(\textit{Number of total applicants})} \times (\textit{Number of applicants selected})}$$

In our case:

$$SD = \sqrt{\left(\frac{80}{300} \times \frac{220}{300} \times 20\right)} = \sqrt{(0.2667 \times 0.7333 \times 20)}$$
$$= \sqrt{3.911} = SD = 1.977$$

In our example, women are 26% (80/300) of the applicant pool. We should therefore *expect* to hire 26% of the 20 people hired, or about 5 women. We *actually* hired 2 women. The difference between the numbers of women we would expect to hire and whom we actually hired is $5 - 2 = 3$. We can use the standard deviation rule to gauge if there is adverse (disparate) impact. In our example, the standard deviation is 1.977. Again, the standard deviation rule holds that as a rule of thumb, the difference between the numbers of minority candidates we would have expected to hire and whom we actually hired should be less than two standard deviations. Two times 1.9777 is about 4. Because the difference between the number of women we would have expected to hire (5) and actually hired (2) is 3, the results suggest that our screening did not have adverse impact on women. (Put another way, in this case, hiring just 2 rather than 5 is not a highly improbable result.)[96]

restricted policy
Another test for adverse impact, involving demonstration that an employer's hiring practices exclude a protected group, whether intentionally or not.

RESTRICTED POLICY The **restricted policy** approach means demonstrating that the employer's policy intentionally or unintentionally excluded members of a protected group. Here the problem is usually obvious—such as policies against hiring guards less than 6 feet tall. Evidence of restricted policies such as these is enough to prove adverse impact and to expose an employer to litigation.

POPULATION COMPARISONS This approach compares (1) the percentage of protected group and White workers in the organization with (2) the percentage of the corresponding group in the labor market.

"Labor market," of course, varies with the job. For some jobs, such as secretary, it makes sense to compare the percentage of minority employees with the percentage of minority members in the surrounding community, since they will come from that community. But determining whether an employer has enough female engineers might involve determining the number available nationwide, not in the surrounding community.

Employers use *workforce analysis* to analyze the data regarding the firm's use of protected versus nonprotected employees in the company's various job classifications. The process of comparing the percentage of minority employees in a job (or jobs) at the company with the number of similarly trained minority employees available in the relevant labor market is *utilization analysis*.

MCDONNELL DOUGLAS TEST Lawyers in disparate impact cases use the previous approaches (such as population comparisons) to test whether an employer's policies or actions have the effect of *unintentionally* screening out disproportionate numbers of people from EEOC-protected groups. Lawyers use the McDonnell Douglas test for showing (*intentional*) disparate treatment, rather than (unintentional) disparate impact.

This test grew out of a case at the former McDonnell Douglas Corporation. The applicant was qualified, but the employer rejected the person and continued seeking applicants. Did this show that the hiring company intentionally discriminated against the rejected applicant? The U.S. Supreme Court set four rules for applying the McDonnell Douglas test:

1. That the person belongs to a protected class;
2. That the person applied and was qualified for a job for which the employer was seeking applicants;
3. That, despite this qualification, the person was rejected; and
4. That, after his or her rejection, the position remained open and the employer continued seeking applications from persons with the complainant's qualifications.

If the plaintiff meets all these conditions, then a *prima facie* case of disparate treatment is established. At that point, the employer must articulate a legitimate nondiscriminatory reason for its action, and produce evidence but not prove that it acted based on such a reason. If it meets this relatively easy standard, the plaintiff then has the burden of proving that the employer's articulated reason is merely a pretext for engaging in unlawful discrimination.

ADVERSE IMPACT EXAMPLE Assume you turn down a member of a protected group for a job with your firm. You do this based on a test score (although it could have been interview questions or something else). Further, assume that this person feels they were discriminated against due to being in a protected class, and decides to sue your company.

Basically, all the person must do is show that your procedure (such as the selection test) had an adverse impact on members of his or her minority group. The plaintiff can apply five approaches here. These are disparate rejection rates, the standard deviation rule, restricted policy, population comparisons, and, for disparate *treatment* cases, the McDonnell Douglas test. Once the person proves adverse impact, the burden of proof shifts to the employer. The employer must defend against the discrimination charges.

There is nothing in the law that says that because your procedure has an adverse impact on a protected group, you can't use it. In fact, it may well happen that some tests screen out disproportionately higher numbers of applicants from a protected group than Whites. What the law does say is that once your applicant has shown adverse impact, the burden of proof shifts to you. Now the employer must defend using the procedure.

There are then two basic defenses employers use to justify an employment practice that has an adverse impact: the bona fide occupational qualification (BFOQ) defense, and the business necessity defense.

Bona Fide Occupational Qualification

bona fide occupational qualification (BFOQ)
Requirement that an employee be of a certain religion, sex, or national origin where that is reasonably necessary to the organization's normal operation. Specified by the 1964 Civil Rights Act.

An employer can claim that the employment practice is a **bona fide occupational qualification (BFOQ)** for performing the job. Title VII specifically permits this defense. Title VII provides that "it should not be an unlawful employment practice for an employer to hire an employee . . . on the basis of religion, sex, or national origin *in those certain instances where religion, sex, or national origin is a bona fide occupational qualification* reasonably necessary to the normal operation of that particular business or enterprise."

However, courts usually interpret the BFOQ exception narrowly. It is usually a defense to a disparate treatment case based upon direct evidence of *intentional* discrimination, rather than to disparate impact (unintentional) cases. As a practical matter, employers use it mostly as a defense against charges of intentional discrimination based on age.

AGE AS A BFOQ The Age Discrimination in Employment Act (ADEA) permits disparate treatment in those instances when age is a BFOQ.[97] For example, age is a BFOQ when the Federal Aviation Agency sets a compulsory retirement age of 65 for commercial pilots.[98] Actors required for youthful or elderly roles suggest other instances when age may be a BFOQ. However, courts set the bar high: The reason for the age limit must go to the essence of the business. A court said a bus line's maximum-age hiring policy for bus drivers was a BFOQ. The court said the essence of the business was safe transportation of passengers, and, given that, the employer could strive to employ the most qualified persons available.[99]

RELIGION AS A BFOQ Religion may be a BFOQ in religious organizations or societies that require employees to share their particular religion. For example, religion may be a BFOQ when hiring persons to teach in a religious school. But again, courts construe this defense very narrowly.

GENDER AS A BFOQ Gender may be a BFOQ for positions like actor, model, and restroom attendant requiring physical characteristics possessed by one sex. However, for most jobs today, it's difficult to claim that gender is a BFOQ. For example, gender is not a BFOQ just because the position requires lifting heavy objects. A Texas man filed a complaint against Hooters of America alleging that one of its franchisees would not hire him as a waiter because it "merely wishes to exploit female sexuality as a marketing tool to attract customers and ensure profitability" and so was limiting hiring to females.[100] Hooters argued a BFOQ defense, before reaching a confidential settlement.

NATIONAL ORIGIN AS A BFOQ A person's country of national origin may be a BFOQ. For example, an employer who is running the Chinese pavilion at a fair might claim that Chinese heritage is a BFOQ for persons to deal with the public.

Business Necessity

"Business necessity" is a defense created by the courts. It requires showing that there is an overriding business purpose for the discriminatory practice and that the practice is therefore acceptable.

It's not easy to prove business necessity.[101] The Supreme Court made it clear that business necessity does not encompass such matters as avoiding an employer inconvenience, annoyance, or expense. For example, an employer can't generally discharge employees whose wages have been garnished merely because garnishment creates an inconvenience. The Second Circuit Court of Appeals held that business necessity "must not only directly foster safety and efficiency" but also be essential to these goals.[102] Furthermore, "the business purpose must be sufficiently compelling to override any racial impact. . . . "[103]

However, many employers use the business necessity defense successfully. In an early case, *Spurlock v. United Airlines*, a minority candidate sued United Airlines. He said that its requirements that pilot candidates have 500 flight hours and college degrees were unfairly discriminatory. The court agreed that the requirements did have an adverse impact on members of the person's minority group. But it held that in light of the cost of the training program and the huge human and economic risks in hiring unqualified candidates, the selection standards were a business necessity and were job related.[104]

In general, when a job requires a small amount of skill and training, the courts closely scrutinize any preemployment standards or criteria that discriminate against minority group members. There is less scrutiny when the job requires a high degree of skill, and when the economic and human risks of hiring an unqualified applicant are great.[105]

Attempts by employers to show that their selection tests or other employment practices are *valid* are examples of the business necessity defense. Here the employer must show that the test or other practice is job related—in other words, that it is a valid predictor of performance on the job. Where the employer can establish such validity, the courts have generally supported using the test or other employment practice as a business necessity. In this context, *validity* means the degree to which the test or other employment practice is related to or predicts performance on the job; Chapter 6 explains validation. The following Know Your Employment Law discussion sums up how to apply all this.

Know Your Employment Law: Examples of What You Can and Cannot Do

What do federal fair employment laws allow (and not allow) you to say and do? Federal laws like Title VII usually don't expressly ban questions about an applicant's race, color, religion, sex, or national origin. In other words, "with the exception of personnel policies calling for outright discrimination against the members of some protected group," it's not the questions but their impact.[106] Thus, illustrative inquiries and practices like those on the next few pages are not illegal per se. For example, it isn't illegal to ask a job candidate about her marital status (although it might seem discriminatory). You can ask. However, be prepared to show either that you do not discriminate or that you can defend the practice as a BFOQ or business necessity.

But, in practice, there are two reasons to avoid such questions. First, although federal law may not bar such questions, many state and local laws do.

Second, the EEOC has said that it will disapprove of such practices, so just asking may draw its attention. Such questions become illegal if a complainant can show they screen out a greater proportion of his or her protected group's applicants, *and* you can't prove the practice is required as a business necessity or BFOQ.

Let's look now at some of the potentially discriminatory practices to avoid.[107]

Recruitment

WORD OF MOUTH It's inadvisable to rely on word-of-mouth dissemination of information about job opportunities when your workforce is homogeneous. Doing so reduces the likelihood others will hear about the jobs.

HELP-WANTED ADS "Help wanted—male" and "help wanted—female" ads are violations unless gender is a bona fide occupational qualification. The same applies to ads that suggest age discrimination (like advertising for a "young" man).

Selection Standards

EDUCATIONAL REQUIREMENTS Courts have found educational qualifications to be illegal when (1) minority groups are less likely to possess the qualifications (such as a college degree), and (2) such qualifications are also not job related. However, there are jobs for which educational requirements are appropriate (such as college degrees for pilots).

TESTS According to a former U.S. Supreme Court Chief Justice,

> Nothing in the [Title VII] act precludes the use of testing or measuring procedures; obviously they are useful. What Congress has forbidden is giving these devices and mechanisms controlling force unless they are demonstrating a reasonable measure of job performance.

However, be prepared to show that the test results are job related—for instance, that test scores relate to on-the-job performance.

HEIGHT, WEIGHT, AND PHYSICAL CHARACTERISTICS Physical requirements such as minimum height are unlawful, unless the employer can show they're job related. To qualify for reasonable accommodation, obese applicants must be at least 100 pounds above their ideal weight or there must be a physiological cause for their disability. However, legalities aside, managers should be vigilant.[108] Studies show that people who are obese are less likely to be hired and less likely to receive promotions.[109] According to the EEOC, height and weight requirements tend to be discriminatory and are best avoided, unless demonstrably related to the job.

ARREST RECORDS Unless the job requires security clearance, do not ask an applicant whether they have been arrested or spent time in jail, or use an arrest record to disqualify a person automatically. Due to racial and ethnic disparities in arrest and prison rates, the EEOC set forth guidance discouraging employers from using blanket exclusions against individuals with criminal records.[110]

APPLICATION FORMS Employment applications generally shouldn't contain questions about applicants' disabilities, workers' compensation history, age, arrest record, or U.S. citizenship. It's generally best to collect personal information required for legitimate reasons (such as emergency contact) after hiring. [111]

DISCHARGE DUE TO GARNISHMENT Disproportionate numbers of people from some minority groups suffer garnishment procedures (here creditors claim some of the person's wages). Firing someone for this is generally illegal.

Sample Discriminatory Promotion, Transfer, and Layoff Practices

Fair employment laws also protect current employees. (Thus the Equal Pay Act requires equal wages for substantially similar work performed by men and women.) Therefore, courts may hold that any employment practices regarding pay, promotion, termination, discipline, or benefits that

1. Are applied differently to different classes of persons,
2. Adversely impact members of a protected group, and
3. Cannot be shown to be required as a BFOQ or business necessity, are illegally discriminatory.

PERSONAL APPEARANCE REGULATIONS AND TITLE VII Employees sometimes file suits against employers' dress and appearance codes under Title VII. They usually claim sex discrimination, but sometimes racial or religious discrimination.[112]

- ***Dress*.** In general, employers do not violate the Title VII ban on sex bias by requiring all employees to dress conservatively. However, a car rental company lost a case when it tried to prevent a Muslim woman employee from wearing a headscarf.
- ***Hair*.** In general, employer rules against facial hair do not constitute discrimination, unless beards are required by the person's religion. Courts have similarly rejected arguments that prohibiting cornrow hairstyles infringed on employees' expression of cultural identification. However some states do ban such efforts, and the U.S. Congress recently approved a ban on hair discrimination.[113]
- ***Uniforms*.** When it comes to discriminatory uniforms and/or suggestive attire, courts often side with employees. For example, requiring female employees (such as waitresses) to wear sexually suggestive attire as a condition of employment has been ruled as violating Title VII.[114]

- ***Tattoos and body piercings.*** One case involved a waiter with religious tattoos on his wrists at Red Robin Gourmet Burgers. The company insisted he cover his tattoos at work; he refused. Red Robin settled the suit after the waiter claimed that covering the tattoos would be a sin based on his religion.[115]

Finally, keep three other things in mind:

1. *Good intentions are no excuse*. They do not redeem procedures that operate as built-in headwinds for minority groups and are unrelated to job performance.
2. One cannot claim that a *union agreement necessitates some discriminatory practice*. EEO laws prevail.[116]
3. A strong defense *is not your only recourse*. The employer can agree to eliminate the illegal practice.

LEARNING OBJECTIVE 2-5

List the steps in the EEOC enforcement process.

The EEOC Enforcement Process

Even careful employers eventually face employment discrimination claims and the EEOC.[117] All managers (not just HR managers) play roles in this process. Figure 2-3 provides an overview of this EEOC enforcement process.[118]

- ***File Charge.***[119] First, the aggrieved person, or a member of the EEOC who has reasonable cause to believe that a violation occurred, must file the claim, in writing and under oath, with the EEOC.[120] Under CRA 1991, the discrimination claim must generally be filed within 300 days (when there is a similar state law) or 180 days (where there is not) after the alleged incident took place (2 years for the Equal Pay Act).[121] Employers can obtain employment practices liability insurance against discrimination claims.[122]
- ***Charge Acceptance.*** The EEOC's common practice is to accept a charge and orally refer it to the state or local agency on behalf of the charging party. If the agency waives jurisdiction or cannot obtain a satisfactory solution, the EEOC processes it upon the expiration of the deferral period.[123]
- ***Serve Notice.*** After a charge is filed (or the state or local deferral period has ended), the EEOC has 10 days to serve notice on the employer. Attorneys advise against submitting lengthy statements in response to a charge. Instead, provide a concise explanation describing why the actions were lawful.[124] Figure 2-4 lists some questions to ask after receiving a bias complaint from the EEOC.
- ***Investigation/Fact-Finding Conference.*** The EEOC then investigates the charge to determine whether there is reasonable cause to believe it is true; it has 120 days to decide.[125] Early in the investigation, the EEOC holds an initial *fact-finding conference*. The EEOC's focus here is often to find weak spots in each party's position. It uses these to push for a settlement.
- ***Cause/No Cause.*** If it finds no reasonable cause, the EEOC must dismiss the charge and issue the charging party a Notice of Right to Sue. The person then has 90 days to file a suit on his or her own behalf.
- ***Conciliation.*** If the EEOC does find cause, it has 30 days to work out a conciliation agreement. The EEOC conciliator meets with the employee to determine what remedy would be satisfactory. It then tries to negotiate a settlement.
- ***Notice to Sue.*** If this conciliation is not satisfactory, the EEOC may bring a civil suit in a federal district court, or issue a Notice of Right to Sue to the person who filed the charge.

Voluntary Mediation

The EEOC voluntary mediation mechanism is "an informal process in which a neutral third party assists the opposing parties to reach a voluntary, negotiated resolution of a charge of discrimination."[126] If the parties don't reach agreement (or one of the parties rejects participation), the EEOC processes the charge through its usual mechanisms.

FIGURE 2-3 The EEOC Charge-Filing Process

Note: Parties may settle at any time.
Source: Based on www.eeoc.gov.

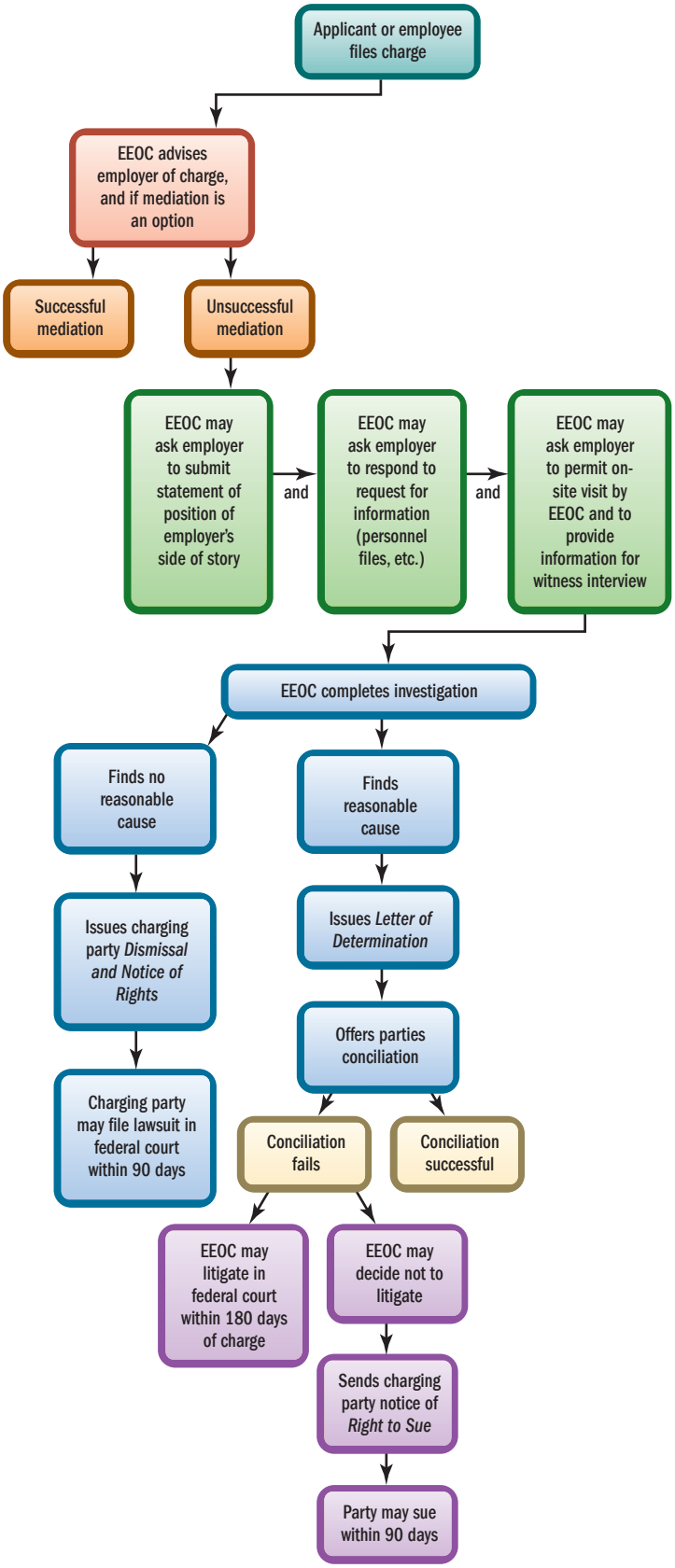

FIGURE 2-4 Questions to Ask When an Employer Receives Notice That the EEOC Has Filed a Bias Claim

1. Exactly what is the charge, and is your company covered by the relevant statutes? (For example, Title VII and the Americans with Disabilities Act generally apply only to employees with 15 or more employees.) Did the employee file his or her charge on time, and was it processed in a timely manner by the EEOC?
2. What protected group does the employee belong to?
3. Is the EEOC claiming disparate impact or disparate treatment?
4. Are there any obvious bases upon which you can challenge and/or rebut the claim? For example, would the employer have taken the action if the person did not belong to a protected group?
5. If it is a sexual harassment claim, are there offensive comments, calendars, posters, screensavers, and so on, on display in the company?
6. In terms of the practicality of defending your company against this claim, who are the supervisors who actually took the allegedly discriminatory actions, and how effective will they be as potential witnesses? Have you received an opinion from legal counsel regarding the chances of prevailing?

Source: Based on Bureau of National Affairs, Inc., "Fair Employment Practices: Summary of Latest Developments," January 7, 1983, p. 3; Kenneth Sovereign, *Personnel Law* (Upper Saddle River, NJ: Prentice Hall, 1999), pp. 36–37; www.eeoc.gov/employers/what-you-can-expect-after-charge-filed?msclkid=8f7b341fcee611ec970243b478743360, accessed May 8, 2022.

Mandatory Arbitration of Discrimination Claims

alternative dispute resolution or ADR program
Grievance procedure that provides for binding arbitration as the last step.

Many employers, to avoid EEOC litigation, require applicants and employees to agree to arbitrate such claims (often referred to as an **alternative dispute resolution or ADR program**). The EEOC does not favor mandatory arbitration. However, the U.S. Supreme Court's decisions (in *Gilmer v. Interstate/Johnson Lane Corp*. and cases) make it clear that "employment discrimination plaintiffs [employees] may be compelled to arbitrate their claims under some circumstances."[127] Given this, employers "may wish to consider inserting a mandatory arbitration clause in their employment applications or employee handbooks."[128] To protect such a process against appeal, the employer should institute steps to protect against arbitrator bias; allow the arbitrator to offer a claimant broad relief (including reinstatement); and allow for a reasonable amount of prehearing fact finding.

HR Tools for Line Managers and Small Businesses: Dealing with an EEOC Charge

The EEOC may not file a suit, but getting a notice saying it is investigating is still scary. Every manager should have some knowledge about what the EEOC will be looking for and what to do. A checklist follows.[129]

During the EEOC Investigation:

- *Conduct your own investigation* to get the facts.
- Ensure that there is information in the EEOC's file *demonstrating lack of merit* of the charge.
- *Limit the information you supply* to only those issues raised in the charge itself.
- *Get as much information* as possible about the *charging party's claim*.
- *Meet with the employee* who made the complaint to clarify all the relevant issues. For example, what happened?
- Remember that *the EEOC can only ask (not compel) employers* to submit documents and ask for sworn testimony.
- Give the EEOC a *position statement*. It should contain words to the effect that "the company has a policy against discrimination and would not discriminate in the manner charged in the complaint."
- Support the statement with documentation.

During the Fact-Finding Conference:

- The only official record is the notes the EEOC investigator takes, so *keep your own records*.
- Bring an *attorney*.
- Make sure you are *fully informed* of the charges and facts of the case.
- Before appearing, *witnesses (especially supervisors) need to be aware* of the legal significance of the facts they will present.

During the EEOC Determination and Attempted Conciliation:

- If there is a finding of cause, *review it carefully*, and point out inaccuracies in writing to the EEOC.
- Use this letter to try again to convince the parties that the charge is *without merit*.
- *Conciliate prudently*. If you have properly investigated the case, there may be no real advantage in settling at this stage.
- Remember: Odds are that *no suit will be filed* by the EEOC.

Two Mistakes to Avoid

Finally, keep two other things in mind.

- First, avoid *management malpractice*, which is aberrant managerial conduct that "exceeds all bounds usually tolerated by society."[130] In one outrageous example, the employer demoted a manager to janitor and humiliated him. The jury awarded the man millions. Supervisors who commit management malpractice may be personally liable for paying part of the judgment.
- Second, *do not retaliate*. Retaliation occurs when employers punish applicants, employees, former employees, or people closely associated with them, because, for instance, they filed a discrimination charge.[131] Over 34,000 such claims were filed in one recent year.[132]

Affirmative Action Programs

Equal employment opportunity aims to ensure that anyone, regardless of race, color, disability, sex, religion, national origin, or age, has an equal opportunity based on his or her qualifications. *Affirmative action* means taking actions (as in recruitment, selection, and promotion) to eliminate the current effects of past discrimination.

Affirmative action is still a significant workplace issue. The incidences of major court-mandated affirmative action programs are down, but courts still use them. Furthermore, many employers must still engage in voluntary programs. For example, Executive Order (EO) 11246 (issued in 1965) requires federal contractors to take affirmative action to improve employment opportunities for groups such as women and racial minority group members.[133] For increasing diversity, two researchers say that few tools " . . . are as effective as affirmative action policies."[134]

Under orders such as EO 11246, the key aims of affirmative action programs are (1) to use numerical analysis to determine which (if any) target groups the firm is *underutilizing* relative to the relevant labor market, and (2) to eliminate the *barriers* to equal employment. Many employers pursue these aims with a **good-faith effort strategy**; this emphasizes identifying and eliminating the obstacles to hiring and promoting women and minority group members, and increasing the minority or female applicant flow. Actions would include using minority group candidate job banks from the National Urban League, Hispanic Online, Latino Web, Society of Hispanic Engineers, Gay.com, Association for Women in Science, and Minorities Job Bank.

good-faith effort strategy
An affirmative action strategy that emphasizes identifying and eliminating the obstacles to hiring and promoting women and minority group members, and increasing the minority or female applicant flow.

EMPLOYEE RESISTANCE Avoiding employee resistance to affirmative action programs is important. Here, studies suggest that current employees need to believe the program is fair. *Transparent selection procedures* (explaining clearly what selection tools and standards the company uses) help. *Communication* is also crucial. Show that the program doesn't involve preferential selection standards. Provide details on the qualifications of all new hires (both minority and nonminority). *Justifications* for the program should emphasize redressing past discrimination and the practical value of diversity, not underrepresentation.[135]

IS THE PROGRAM EFFECTIVE? Questions to ask include: Are there women and minority group members reporting directly to senior managers and in senior manager positions? Are turnover rates for female and minority group members the same or lower than for White males? And, do women and minority group members have a fair share of the jobs that are the traditional stepping-stones to successful careers in the company?[136]

Diversity management can blend a diverse workforce into a close-knit and productive community.

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Reverse Discrimination

reverse discrimination
Claim that due to affirmative action quota systems, *non*minority applicants and employees are discriminated against.

Reverse discrimination means discriminating against *non*minority applicants and employees.[137] Many court cases have addressed these issues.

In one early case, *Bakke v. Regents of the University of California* (1978), the University of California at Davis Medical School denied admission to White student Allen Bakke, allegedly because its affirmative action quota system required that a specific number of openings go to minority group applicants. In a 5-to-4 vote, the U.S. Supreme Court struck down the policy that made race the only factor in considering applications for a certain number of class openings. It thus allowed Bakke's admission.

In 2009, the U.S. Supreme Court ruled in a reverse discrimination suit brought by Connecticut firefighters. In *Ricci v. DeStefano*, 19 White firefighters and 1 Hispanic firefighter said the city of New Haven should have promoted them based on their test scores. The city argued that certifying the tests would have left them vulnerable to lawsuits from minority group members for violating Title VII.[138] The Court ruled in favor of the plaintiffs. Justice Kennedy wrote that "the city rejected the test results solely because the higher scoring candidates were White." The consensus of observers was that the decision would make it harder for employers to ignore the results obtained by valid tests, even if they disproportionately impact minority group members.[139] Others strongly disagree; for example the California legislature is considering undoing "reverse discrimination" rules.[140]

LEARNING OBJECTIVE 2-6
Define DEI effort and give examples of HR actions that support it.

Diversity, Equity, and Inclusion in Action

In 2020 the *Washington Post* noted that many people remained skeptical of big employers' claims that "Black Lives Matter".[141] The reason for the skepticism was that, 60 years after passage of Title VII, progress seemed constricted. For instance, less than 5% of top managers at America's largest banks were Black, and there were even fewer at big tech companies. Many people wondered if employers would translate their words in support of diversity into deeds. As noted earlier, 82% of chief HR officers surveyed recently cited DEI as their top concern.[142] In fact, many employers did move to initiate DEI efforts.

diversity
The variety or multiplicity of demographic features that characterize a company's workforce, particularly in terms of race, sex, culture, national origin, handicap, age, and religion.

equity
The absence of systematic disparities, and the process of eliminating racial and other disparities and improving outcomes for everyone.

inclusion
A state of being valued, respected and supported.

bias
A predisposition for people to think or behave in a particular way.

prejudice
A bias toward prejudging someone based on that person's traits.

stereotyping
Ascribing specific behavioral traits to individuals based on their apparent membership in a group.

gender-role stereotypes
The tendency to associate women with certain (frequently nonmanagerial) jobs.

discrimination
Taking specific actions toward or against a person based on the person's group.

tokenism
Appointing a small group of women or people of color to high-profile positions, rather than more aggressively seeking full representation for that group.

ethnocentrism
The tendency to view members of other social groups less favorably than members of one's own group.

WHAT DOES DEI MEAN? **Diversity** means being diverse or varied and, at work, means having a workforce composed of two or more groups of employees with various racial, ethnic, gender, cultural, national origin, handicap, age, and religious backgrounds.[143] **Equity** (in this context) means the "absence of systematic disparities";[144] it is " . . . the process of eliminating racial and other disparities and improving outcomes for everyone."[145] **Inclusion** "is a state of being valued, respected and supported. It's about focusing on the needs of every individual and ensuring the right conditions are in place for each person to achieve his or her full potential."[146] *DEI efforts* aim to create equitable and inclusive organizations that flourish on diversity.

Potential Barriers to Diversity, Equity, and Inclusion (DEI)

Efforts to foster diversity, equity, and inclusion often encounter barriers. Familiar barriers include the following.

Bias is a predisposition for people to think or behave in a particular way. **Prejudice** is a bias toward prejudging someone based on that person's traits, as in "we won't hire him because he's old." Some biases are subconscious.[147] The accompanying Diversity Counts feature illustrates this.

Stereotyping means ascribing specific behavioral traits to individuals based on their apparent membership in a group.[148] Former Facebook COO Sheryl Sandberg says one such stereotype is that men are expected to be assertive while women should be collaborative. So, a woman who pushes for more for herself is viewed as "bossy," whereas a man is viewed as doing his job.[149] Put another way, women confront **gender-role stereotypes**, the tendency to associate women with certain (frequently nonmanagerial) behaviors.[150]

Discrimination is prejudice in action. It means taking specific actions toward or against the person based on the person's group.[151] It is generally illegal to discriminate at work based on someone's age, race, gender, disability, or national origin. But in practice, discrimination can be subtle. Thus, many argue that a "glass ceiling," enforced by an "old boys' network" (friendships built in places like exclusive clubs), hinders women from reaching top management.

Tokenism means appointing a small group of women or people of color to high-profile positions, rather than more aggressively seeking full representation for that group.[152]

Ethnocentrism is the tendency to view members of other social groups less favorably than one's own.

DIVERSITY COUNTS

How Unconscious Biases Can Affect Pay

Salary negotiations often affect one's pay. Studies show that during such negotiations, racial stereotypes (often subconscious) influence what employers offer.

The researchers conducted three studies.[153] The first involved 272 working adult subjects. They were about evenly divided between male and female, and ethnically diverse (73.2% White, about 10% Black, 5.5% Hispanic, 6.6% Asian American, and 2.9% other). The researchers had each subject "evaluator" view one of two versions of a fictitious job applicant's resume. The resumes were identical, with one difference: some contained a Black male's photo on top, others a White male. This first study found that more biased evaluators expected Black jobseekers to negotiate lower starting salaries than did White jobseekers. The second study, with fewer participants, concluded that when Black jobseekers violated these expectations (asked for more money), they were actually penalized and offered even lower salaries. Why? The third study concluded that the Black jobseekers got offered the lower starting salaries because the subjects became resistant to making concessions to the Black jobseekers. ■

Diversity Management Programs

Employers have long used *diversity management programs* to try to address problems such as bias. These programs aim is to make employees more sensitive to and better able to deal with cultural differences.[154] Typical steps include the following: [155]

Provide top management commitment. Companies with exemplary reputations in managing diversity typically have CEOs who champion diversity. This means, for instance, being a role model for the behaviors required for the change. One study concluded that top managers who excelled at this were also those who were passionate about encouraging inclusion and diversity.[156]

Assess the situation. Popular tools for assessing a company's diversity include EEO hiring and retention metrics, employee attitude surveys, management and employee evaluations, and focus groups.

Provide diversity training and education. The traditional core of a diversity management effort is usually an employee training and education program. For example, use videos to show the effects of bias in job interviews.

Change culture and management systems. Combine training programs with other steps aimed at changing the company's management systems and culture. For example, modify the appraisal system to signal that you're appraising supervisors based partly on their diversity management results.

Evaluate the diversity management program. For example, do employee attitude surveys now indicate any improvement in employees' attitudes toward diversity?

Diversity programs like these are often effective, but for many situations aren't comprehensive enough to address the problems. Recently the focus has shifted to comprehensive DEI efforts.

Managing Diversity, Equity, and Inclusion (DEI) Efforts[157]

DEI (Diversity, Equity, Inclusion) Effort
The policies, strategies, and practices that together aim to create and sustain a diverse and inclusive environment.

Diversity, equity, and inclusion—DEI—is the umbrella term for the policies, strategies, and practices that together aim to create and sustain a diverse and inclusive environment, no matter employees' ethnicity, physical ability, gender identity, religion, age, marital status, sexual orientation, socioeconomic status, national origin, or veteran status.[158] As noted earlier, HR officers cite DEI as their top concern. Many have therefore instituted efforts to improve diversity, equity, and inclusion. These comprehensive **DEI Efforts** may comprise five stages, starting with awareness.

AWARENESS Many employees and executives may be skeptical that diversity, equity, and/or inclusion problems exist in the company. For example, many mistakenly assume that racism needs to be overt, when in fact its effects are more often a product of unconscious biases ("older people can't work as hard"). People rarely take action on problems they're not aware of. Change therefore starts with awareness, and awareness begins with data. For example, managers can use tools such as ADP's *workforce dashboard* to visualize the current state of DEI in their companies. For example, How diverse is our workforce? How diverse is our leadership? Which areas are not diverse? What is our minority group member turnover rate? Other assessment tools include, for example, employee attitude surveys, and focus groups. Often, such analyses uncover deficiencies that the employer has to address.

TOP MANAGEMENT COMMITMENT As one person put it, "I think what's missing and what causes companies to lose the progress they've made is that the commitment from the top is not there."[159] As we will see in Chapter 7 (Training and Development), effective change efforts (including DEI efforts) require top management commitment. (By way of comparison, the head of HR for a big sportswear company recently retired after referring to racism as "noise" that's only discussed in America.[160]) A good start in illustrating such commitment is to issue a workplace DEI statement, as in Figure 2-5.

ROOT CAUSE ANALYSIS With agreement that there's a problem and commitment to pursue it, the next step is to drill down to identify the problem's source or sources. This often involves a more granular analysis of the company's workforce data,

FIGURE 2-5 Corporate Diversity, Equity, and Inclusion Statement

Source: "The ultimate guide to DEI in the workplace: 12 steps every organization should take," www.qualtrics.com, accessed May 1, 2022.

attitude surveys, and focus groups, and advice from outside experts. For example, is the problem a result of a few "bad apples"? Or is there something about our systems and culture—about how we recruit, train, orient, and promote employees, and how we address racial comments, for instance—that's contributing to bad behavior?

EMPATHY After identifying the root of the problem, the question is, Do we care enough to do anything about it? Here, empathy—compassion, and understanding—plays a big role. Exposure to a vivid example of the need for change can create empathy. Thus, repeated and widespread exposure to videos of George Floyd's killing convinced many people that something had to be done.

STRATEGY AND ACTION With agreement on what the problems are, and a sense that something must be done, management can formulate specific plans for changing the firm's norms, institutional policies and systems, and employees' attitudes. HR actions inevitably play a central role here. For example, how will we change our hiring process and the sources we use to recruit applicants? Each planned change should have measurable targets. Then execute the plans; wait some time; and then revisit your workforce data to assess progress. Figure 2-6 summarizes illustrative HR actions an employer can take, relevant to improving DEI.

HR ACTIVITY	ILLUSTRATIVE HR ACTIONS FOR SUPPORTING DEI	WHY?
JOB ANALYSIS	Make sure job requirements, such as degrees with specific majors, are necessary, or whether, for instance, you could substitute testable skills for the degree.	College degree and minimum GPA requirements adversely affect Black workers' earnings and career advancement. They can often be replaced by skills requirements.[i]
RECRUITING	Set affirmative staffing goals. Mandate more diverse candidate pools and sources of candidates,	Without using diversity recruitment sources such as historically minority colleges, you are unlikely to attract sufficiently diverse candidate pools.
TESTING & SELECTION	Appoint diverse selection panels, for example in terms of gender and ethnicity. Train panel members in how to prevent bias errors such as stereotyping. Familiarize all job candidates with your interview process.	Selection is subject to bias, such as a tendency to stereotype people based on that their membership in some group. Some candidates may have more experience being interviewed than do others.
INTERVIEWING	Use structured interviews, with standardized questions chosen for their ability to predict success on the job. Use diverse interview panels.	Interviewing is highly subject to bias, such as stereotyping and jumping to erroneous conclusions. Structured interviews reduce this.
TRAINING	Train your employees to overcome unconscious bias. Techniques include, for instance, identifying specific stereotypical behaviors (jumping to conclusions based on stereotypes).	Many managers and employees are more susceptible to biased decision making than they realize. Training reduces the problem.
APPRAISING	Use multiple raters, train appraisers, and have the supervisor's boss review all ratings and discuss them.	Performance appraisals are highly subject to bias and to a variety of other flaws, such as giving better ratings to friendlier employees.
COMPENSATING	Scrutinize employee pay to ensure that differences are based on merit, rather than gender or race. Include incentives for improving DEI metrics in managers' pay plans.	Women earn about 75-86 cents for every dollar a man earns, and the pay difference between Black men and White is similar.
EMPLOYEE RELATIONS	Your disciplinary process should have well-publicized rules and regulations, a system of progressive penalties, and an appeals process.	Discipline should be fair and protected from disparate treatment based on, say, race or gender.

[i] Stephen Miller, "College Degree Requirements Hinder Black Workers' Earnings, Career Advancement," *Society for Human Resource Management*, August 19, 2020.

FIGURE 2-6 HR Actions to Support Diversity, Equity, and Inclusion*

*Copyright Gary Dessler, PhD

Illustrative Actual Employer DEI Actions

As we'll see in this book, employers are taking action to improve diversity, equity, and inclusion. For example, Nike has a dedicated diversity applicant sourcing team.[161] Microsoft has a chief accessibility officer to help ensure the company reaches its goals in terms of percentage of employees with disabilities; they also have an autism hiring program to attract and support people on the autism spectrum. When it discovered it wasn't hiring enough women data scientists, Airbnb began requiring that women comprise half the interview panel for female candidates. Slack recruits from coding boot camps that attract participants from minority groups. It also uses word screening to check for biased language that might discourage female candidates. Intel partnered with the American Indian Science and Engineering Society to encourage Native American STEM students. Home Depot partnered with the mentoring organization 100 Black Men of America, to increase training opportunities for Black youths.[162] It provides skilled labor training—for instance in carpentry—as well as internships and certification opportunities for minority group members. SHRM created a *DE&I Action to Change Toolbox*. It includes tools like step-by-step instructions for how to support diversity, equity, and inclusion actions.[163]

Chapter Review

Chapter Section Summaries

2-1. Events in the **evolution of widespread interest in DEI** include Title VII, an increasingly diverse workforce, evolving societal values, and crises triggered by the deaths of George Floyd and others.

2-2. Several of the most important **equal employment opportunity laws became law in the period from 1964 to 1991**.

- Title VII of the 1964 Civil Rights Act states that an employer cannot discriminate based on race, color, religion, sex, or national origin. Title VII established the Equal Employment Opportunity Commission and covers most employees.
- Under the Equal Pay Act of 1963 (amended in 1972), it is unlawful to discriminate in pay on the basis of sex when jobs involve equal work, skills, effort, and responsibility and are performed under similar working conditions.
- The Age Discrimination in Employment Act of 1967 made it unlawful to discriminate against employees or applicants who are between 40 and 65 years of age.
- The Vocational Rehabilitation Act of 1973 requires most employers with federal contracts to take affirmative action when employing handicapped persons.
- The Pregnancy Discrimination Act of 1978 prohibits using pregnancy, childbirth, or related medical conditions to discriminate in hiring, promotion, suspension, or discharge or in any term or condition of employment.
- The EEOC, Civil Service Commission, Department of Labor, and Department of Justice together issued Uniform Guidelines. These set forth "highly recommended" procedures regarding HR activities like employee selection and record keeping.
- *Griggs v. Duke Power Company* was an important early case. Here, Chief Justice Burger held that in employment, discrimination does not have to be overt to be illegal, and an employment practice that discriminates must be job related.

2-3. Equal employment law continues to evolve, with important **new legislation enacted since 1990–1991**.

- The Civil Rights Act of 1991 reversed the effects of several Supreme Court rulings—for instance, underscoring that the burden of proof is the employer's once a plaintiff establishes possible illegal discrimination.
- The Americans with Disabilities Act prohibits employment discrimination against qualified disabled individuals. It also says employers must make "reasonable accommodations" for physical or mental limitations unless doing so imposes an "undue hardship" on the business.
- The Federal Violence Against Women Act of 1994 provided women with another way to seek relief for (violent) sexual harassment. Basically, sexual harassment refers to unwelcome sexual advances, requests for sexual favors, and other verbal or physical conduct of a sexual nature. Three main ways to prove sexual harassment include *quid pro quo*, hostile environment created by supervisors, and hostile environment created by coworkers or those who are not employees.

2-4. Employers use various **defenses against discrimination allegations**. Here employers need to distinguish between disparate treatment (intentional discrimination) and disparate impact (a policy that has an adverse impact regardless of intent). Plaintiffs show adverse impact by the standard deviation rule or by showing disparate rejection rates, restricted policy, or population comparisons, or by applying the McDonnell Douglas test. Employers defend themselves by showing that the employment practice is a bona fide occupational qualification. Or they may defend themselves by using the business necessity defense, which requires showing that there is an overriding business purpose. Given all this, the manager needs a working knowledge of *discriminatory employment practices*. For example, in recruitment, employers no longer use "help wanted—male" ads.

2-5. All managers play an important role in **the EEOC enforcement process**. The basic steps in this process include filing the charge, charge acceptance by the EEOC, serving notice on the employer, the investigation/fact-finding conference, a finding of cause/no cause, conciliation efforts, and (if necessary) a notice to sue. The EEOC refers about 10% of its charges to voluntary mediation mechanisms.

2-6. Diversity, equity, and inclusion (DEI) efforts refers to policies, strategies, and practices that together aim to create and sustain a diverse and inclusive environment, no matter employees' ethnicity, physical ability, gender identity, religion, age, marital status, sexual orientation, socioeconomic status, national origin, or veteran status. Supportive HR actions include making sure job requirements are necessary, and mandating more diverse sources of candidates. Stages in DEI efforts include top management commitment, root cause analysis, empathy, and strategy and action.

Discussion Questions

2-1. What important precedents were set by the *Griggs v. Duke Power Company* case? The *Albemarle v. Moody* case?

2-2. Explain each of four examples of a bona fide occupational qualification (age, religion, gender, national origin).

2-3. What is sexual harassment? How can an employee prove sexual harassment?

2-4. What is the difference between disparate treatment and disparate impact?

2-5. Briefly describe what is meant by DEI efforts.

Individual and Group Activities

2-6. Working individually or in groups, respond to these three scenarios based on what you learned in this chapter. Under what conditions (if any) do you think the following constitute sexual harassment? (a) A female manager fires a male employee because he refuses her requests for sexual favors. (b) A male manager refers to female employees as "sweetie" or "baby." (c) A female employee overhears two male employees exchanging sexually oriented jokes.

2-7. Working individually or in groups, discuss how you would set up an affirmative action program.

2-8. Compare and contrast the issues presented in *Bakke* with more recent court rulings on affirmative action. Working individually or in groups, discuss the current direction of affirmative action.

2-9. Working individually or in groups, write a one-page paper titled "What the Manager Should Know About How the EEOC Handles a Person's Discrimination Charge."

2-10. Explain the difference between affirmative action and equal employment opportunity.

2-11. Assume you are the manager in a small restaurant; you are responsible for hiring employees, supervising them, and recommending them for promotion. Working individually or in groups, compile a list of potentially discriminatory management practices you should avoid.

2-12. The HRCI *Exam Content Outline* Website https://www.hrci.org/docs/default-source/web-files/phr-exam-content-outline.pdf?sfvrsn=13c44f61_28 lists the knowledge (see "Knowledge of") someone studying for the HRCI PHR certification exam needs to have in each area of human resource management (such as in Business Management, and in Talent Planning and Acquisition.)[166] In groups of several students, do four things: (1) review the *Exam Content Outline* on that Website; (2) identify the material in this chapter that relates to the Exam Content Outline's required "Knowledge Of" lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.

Experiential Exercise

"Space Cadet" or Victim?[164]

Written and copyrighted by Gary Dessler, PhD.

Discrimination lawsuits are rarely simple because the employer will often argue that the person was fired due to poor performance rather than discrimination. So, there's often a "mixed-motive" element to such situations. The facts of a case illustrate this (*Burk v. California Association of Realtors*, California Court of Appeals, number 161513, unpublished, 12/12/03). The facts were as follows. The California Association of Realtors maintained a hotline service to provide legal advice to real estate agents. One of the 12 lawyers who answered this hotline was a 61-year-old California attorney who worked there for eleven years. For the first seven years, he received mostly good reviews. At that time, association members began filing complaints about his advice. His supervisor told him to be more courteous.

Two years later, association members were still complaining about this individual. Among other things, association members who called in filed complaints referring to him as "a space cadet" and "incompetent." Subsequently, his supervisor contacted six association members whom the 61-year-old lawyer had recently counseled; five of the six said they had had bad experiences. The association fired him for mistreating association members and providing inadequate legal advice.

The 61-year-old lawyer sued the association, claiming that the firing was age related. To support his claim, he noted that one colleague had told him that he was "probably getting close to retirement" and that another colleague had told him he was "getting older." The appeals court had to decide whether the association fired the 61-year-old lawyer because of his age or because of his performance.

Purpose: The purpose of this exercise is to provide practice in analyzing and applying knowledge of equal opportunity legislation to a real problem.

Required Understanding: Be thoroughly familiar with the material presented in this chapter. In addition, read the preceding "space cadet" case on which this experiential exercise is based.

How to Set Up the Exercise/Instructions:

- Divide the class into groups.
- Each group should develop answers to the following questions:

  2-13. Based on what you read in this chapter, on what legal basis could the 61-year-old California attorney claim he was a victim of discrimination?

  2-14. On what laws and legal concepts did the employer apparently base its termination of this 61-year-old attorney?

  2-15. Based on what laws or legal concepts could you take the position that it is legal to fire someone for poor performance even though there may be a discriminatory aspect to the termination? (This is not to say that there necessarily was such a discriminatory aspect with this case.)

  2-16. If you were the judge called on to make a decision on this case, what would your decision be, and why?
- The court's decision follows, so please do not read this until you've completed the exercise.

In this case, the California State Appeals court held that "the only reasonable inference that can be drawn from the evidence is that [plaintiff] was terminated because he failed to competently perform his job of providing thorough, accurate, and courteous legal advice to hotline callers."

Application Case

Seeking Gender Equity at Starbucks

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Starbucks is progressive in terms of gender equity policies.[165] By the 1990s it was offering health insurance coverage to Starbucks partners (employees) who were in lesbian and gay relationships, and its health care insurance covers gender reassignment surgery. More recently it announced that it had eliminated its partners' gender wage gap: Starbucks male and female partners performing similar work are paid almost exactly the same—within 99.7% of each other (compared with about 75%-86% nationwide).

However, several large Starbucks shareholders think its gender efforts still fall short. For example, Zevin Asset Management proposed that Starbucks report on whether its paid family leave policy was discriminatory. According to Starbucks, the policy is generous and competitive for a retail chain. For example, it gives Starbucks corporate office workers 16 weeks paid leave if they gave birth, and 12 weeks if they are new fathers or adoptive parents. Starbucks says its program is exceptional because even employees who work just 20 hours a week can use it. But Zevin says the problem is that the policy is discriminatory because retail store workers who give birth or adopt only get 6 weeks of paid leave and fathers get none. Some shareholders say this will harm Starbucks' reputation because it is on record as saying that it tries to treat corporate and retail partners the same.

Although shareholders often reject proposals like these, employers may still implement the recommendations, particularly when they involve

equitable treatment. Several years ago, for instance, another investment firm proposed that several tech giants like Amazon and Apple pay male and female employees equitably. The proposal never came to a vote, because the tech firms soon closed their gender wage gaps.

So at the end of the day, such proposals present top managers with a dilemma. Starbucks, for instance, believed that its parental leave policy was already one of the best in the industry, and that was probably true. Yet it did seem somewhat inequitable to offer better benefits to corporate office workers then to those in the retail stores.

Questions

2-17. Do you agree that it is inequitable to offer the corporate workers better benefits then the store partners? Why? Is that what the law would seem to say?

2-18. What arguments would you make as Starbucks' CEO concerning why the current policy is fair?

2-19. How would you handle this situation if you were running a company that was confronted by a shareholder making these demands?

Continuing Case

Carter Cleaning Company

Written and copyrighted by Gary Dessler, PhD.

A Question of Discrimination

One of the first problems Jennifer faced at her father's Carter Cleaning Centers concerned the inadequacies of the firm's current HR management practices and procedures.

One problem that particularly concerned her was the lack of attention to equal employment matters. Each store manager independently handled virtually all hiring; the managers had received no training regarding such fundamental matters as the types of questions they should not ask of job applicants. It was therefore not unusual for female applicants to be asked questions such as "Who's going to take care of your children while you are at work?" and for minority applicants to be asked questions about arrest records and credit histories. Nonminority applicants—three store managers were White males and three were White females—were not asked these questions, as Jennifer discerned from her interviews with the managers. Based on discussions with her father, Jennifer deduced two reasons for the laid-back attitude toward equal employment: (1) her father's lack of insight about the legal requirements, and (2) the fact that, as Jack Carter put it, "Virtually all our workers are women or minority members anyway, so no one can come in here and accuse us of being discriminatory, can they?"

Jennifer decided to mull that question over, but before she could, she was faced with two serious equal rights problems. Two women in one store privately confided to her that their manager was making unwelcome sexual advances toward them. One claimed he had threatened to fire her unless she "socialized" with him after hours. And during a fact-finding trip to another store, an older gentleman—he was 73 years old—complained of the fact that although he had almost 50 years of experience, he was paid less than people half his age in the same job. Jennifer's review of the stores resulted in the following questions.

Questions

2-20. Is it true, as Jack Carter claims, that "virtually all our workers are women or minority members anyway, so no one can come in here and accuse us of being discriminatory"?

2-21. How should Jennifer and her company address the sexual harassment charges and problems?

2-22. How should she and her company address the possible problems of age discrimination?

2-23. Given the fact that each of its stores has only a handful of employees, is her company covered by equal rights legislation?

2-24. And finally, aside from the specific problems, what other personnel management matters (application forms, training, and so on) have to be reviewed given the need to bring them into compliance with equal rights laws?

CHAPTER 2

Writing Assignments

2-25. Explain the main features of Title VII, the Equal Pay Act, the Pregnancy Discrimination Act, the Americans with Disabilities Act, and the Civil Rights Act of 1991.

2-26. What are the two main defenses you can use in the event of a discriminatory practice allegation, and what exactly do they involve?

Key Terms

Title VII of the 1964 Civil Rights Act, 27
Equal Employment Opportunity Commission (EEOC), 27
minority, 28
affirmative action, 28
Office of Federal Contract Compliance Programs (OFCCP), 28
Equal Pay Act of 1963, 28
Age Discrimination in Employment Act of 1967 (ADEA), 28
Vocational Rehabilitation Act of 1973, 28
Pregnancy Discrimination Act, 29
Uniform Guidelines, 29
protected class, 29
Civil Rights Act of 1991 (CRA 1991), 30
"mixed-motive" case, 30
Americans with Disabilities Act (ADA), 31
qualified individuals, 31
sexual harassment, 35
Federal Violence Against Women Act of 1994, 35
adverse impact, 38
disparate rejection rates, 39
4/5ths rule, 39
restricted policy, 39
bona fide occupational qualification (BFOQ), 41
alternative dispute resolution or ADR program, 46
good-faith effort strategy, 47
reverse discrimination, 48
diversity, 49
equity, 49
inclusion, 49
bias, 49
prejudice, 49
stereotyping, 49
gender-role stereotypes, 49
discrimination, 49
tokenism, 49
ethnocentrism, 49
DEI Efforts, 50

Endnotes

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29. We'll see that the process of filing a discrimination charge goes basically like this: The plaintiff (say, a rejected applicant) demonstrates that an employment practice (such as a test) has a disparate (or "adverse") impact on a particular group. *Disparate impact* means that an employer engages in an employment practice or policy that has a greater adverse impact (effect) on the members of a protected group under Title VII than on other employees, regardless of intent. (Requiring a college degree for a job would have an adverse impact on some minority groups, for instance.) Disparate impact claims do *not* require proof of discriminatory intent. Instead, the plaintiff's burden is to show two things. First, the plaintiff must show that a significant disparity exists between the proportion of (say) women in the available labor pool and the proportion hired. Second, the plaintiff must show that an apparently neutral employment practice, such as word-of-mouth advertising or a requirement that the jobholder "be able to lift 100 pounds," is causing the disparity. Then, once the plaintiff fulfills his or her burden of showing such disparate impact, the *employer* has the heavier burden of proving that the challenged practice is job related. For example, the employer has to show that lifting 100 pounds is actually required for effectively performing the position in question, and that the business could not run efficiently without the requirement—that it is a business necessity.
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93. Moran, *Employment Law*, p. 168.
94. Employers use several types of statistics in addressing adverse impact. (For a discussion, see Robert Gatewood and Hubert Feild, *Human Resource Selection* [Fort Worth, TX: The Dryden Press, 1994], pp. 40–42, and Jean Phillips and Stanley Gully, *Strategic Staffing* [Upper Saddle River, NJ: Pearson, 2012], pp. 68–69.) For example, *stock statistics* might compare *at a single point in time* (1) the percentage of female engineers the company has, as a percentage of its total number of engineers, with (2) the number of trained female engineers in the labor force as a percentage of the total number of trained engineers in the labor force. Here, the question of relevant labor market is important. For example, the relevant labor market if you're hiring unskilled assemblers might be the local labor market within, say, 20 miles from your plant, whereas the relevant labor market for highly skilled engineers might well be national and possibly international. *Flow statistics* measure proportions of employees, in particular, groups at two points in time: before selection and after selection takes place. For example, when comparing the percentage of minority applicants who applied with the percentage hired, the employer is using flow statistics. An employer's companywide minority hiring statistics may be defensible companywide but not departmentally. The employer therefore may employ *concentration statistics* to drill down and determine the concentration of minority versus nonminority in particular job categories.
95. One study found that using the 4/5ths rule often resulted in false-positive ratings of adverse impact, and that incorporating tests of statistical significance could improve the accuracy of applying the 4/5ths rule. See Philip Roth, Philip Bobko, and Fred Switzer, "Modeling the Behavior of the 4/5ths Rule for Determining Adverse Impact: Reasons for Caution," *Journal of Applied Psychology* 91, no. 3 (2006), pp. 507–522.
96. The results must be realistic. In this example, hiring 2 out of 5 women suggests there is no adverse impact. But suppose we had hired only 1 woman. Then the difference between those we would be expected to hire (5) and whom we actually hired (1) would rise to 4. Hiring just one less woman might then trigger adverse impact issues because twice the standard deviation is also about 4. However, realistically, it probably would not trigger such concerns, because with such small numbers, one person makes such a difference. The point is that tools like the 4/5ths rule and the standard deviation rule are only rules of thumb. They do not themselves determine if the employer's screening process is discriminatory. This fact may work both for and against the employer. As the Uniform Guidelines (www.uniformguidelines.com/qandaprint.html) put it, "Regardless of the amount of difference in selection rates, unlawful discrimination may be present, and may be demonstrated through appropriate evidence. . . . "
97. The ADEA does not just protect against intentional discrimination (disparate treatment). Under a Supreme Court decision (*Smith v. Jackson*, Miss., 2005), it also covers employer practices that seem neutral but that actually bear more heavily on older workers (disparate impact). "Employees Need Not Show Intentional Bias to Bring Claims Under ADEA, High Court Says," *BNA Bulletin to Management* 56, no. 14 (April 5, 2005), p. 105.
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3 Human Resource Policy, Strategy, and Performance

WHERE ARE WE NOW . . .

The main purpose of this chapter is to explain how managers formulate human resource policies and strategies for their companies. We'll address **Developing Human Resource Management Policies; Basics of Strategic Planning; Strategic Human Resource Management; Assessing HR Performance: HR Metrics, Benchmarking, and Data Analytics; High-Performance Work Systems;** and **Employee Engagement.** We will see that employers ideally design their HR policies to produce the employee skills and behaviors the firm needs to achieve its strategic goals. We will turn in the following chapter to how to analyze jobs and recruit employees.

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

3-1 Explain how to write an HR policy for a company.

3-2 Describe the basic strategic planning process.

3-3 Define *strategic human resource management*, and give an example of strategic human resource management in practice.

3-4 Give at least five examples of HR metrics.

3-5 Give five examples of what employers can do to have high-performance work systems.

3-6 Explain how you would design a program to improve employee engagement.

When Netflix first announced its HR policies, many thought they were a recipe for disaster. For example, salaried workers could take all the vacation time they wanted. Most employees had no regularly scheduled appraisals. And someone's salary might be reset any time of the year, rather than just annually.[1] We'll see why Netflix took this approach.

LEARNING OBJECTIVE 3-1
Explain how to write an HR policy for a company.

Developing Human Resource Management Policies

Policies (like those at Netflix) are broad formal guidelines showing how employees should act. They provide the day-to-day guidance employees need to do their jobs in a way consistent with the company's way of doing things. For example, "Our policy is to comply with all laws, regulations, and principles of ethical conduct." *Procedures* lay out what to do if a specific situation arises. For example, "Any employee who believes this policy has been violated must report this to the employee's immediate supervisor."

The HR policies in an employee handbook typically cover most of the employer's HR activities. These would include, for instance, a Sexual Harassment Policy, Work Schedules Policy, Attendance Policy, Vacation/Sick Leave Policy, and Recruitment Policy.[2] Managers also usually develop policies for other departments such as sales and finance.

Developing Human Resource Policies

Employers either write their own policies and procedures or adapt them from existing sources, (or both). Writing one's own policies requires having a standard outline (or template) for each policy, and then actually writing the policy. A typical policy outline might be, for example, Policy Title, Policy Purpose, and Statement of Policy. Sample templates are available online.[3]

THE STRATEGIC CONTEXT: NETFLIX'S HR POLICIES Actually writing the policy then starts with determining what you want the policy to achieve. The employer's policies—even if adapted from prepackaged sources—should reflect how the employer wants things done. For example, Netflix is an innovative company. It evolved from mailing movie videos, to delivering DVDs, to producing and delivering entertainment online. Early on, its founder/CEO Reed Hastings decided that the best way to grow was to attract, hire, and retain "Dream Team" employees; then, let them thrive in a culture that emphasized creativeness, flexibility, and independent thinking.[4]

At Netflix, hiring and motivating such "Dream Team" employees meant emphasizing what Netflix called "people over process."[5] For example its Parental Leave policy is "take care of your baby and yourself"; most new parents take off for 4–8 months. Its Time Away policy is "take a vacation"; with some limitations, salaried employees can take off for as long as they need.[6] Netflix believes, probably correctly, that its HR policies help it produce the employee skills and behaviors (such as creativity and independent thinking) it needs to achieve its goals.

Rather than write their own policies, many employers adapt policies from packaged sources. An online search for packaged HR policies would produce many choices (for instance, see www.bizmanualz.com/, and then click Policies and Procedures Manual).[7] SHRM—the Society for Human Resource Management—is another good source.[8]

The Management Planning Process

In any case, policy-setting should start with understanding the company's aims and goals. These goals emerge from the employer's management planning process. The basic management planning process consists of five steps:

Set a Goal > Make Your Forecasts > Develop Your Alternatives > Choose an Alternative > Implement your plan.

The *Plan* shows the steps and courses of action you've chosen for getting from where you are now, to the goal.

In companies, it is traditional to view the goals cascading from the top of the organization down to front-line employees as a chain or *hierarchy of goals*. At the top, the president sets long-term or "strategic" goals (such as "double sales revenue to $16 million in fiscal year 2026").

Then the organization's departmental vice presidents set goals for their units that flow from, and make sense in terms of, accomplishing, the president's goal.

Finally the vice presidents' subordinates set unit and personal goals, and so on down the chain.

LEARNING OBJECTIVE 3-2

Describe the basic strategic planning process.

Basics of Strategic Plannning

Setting the company's goals typically starts at the top, as part of formulating an overall strategic plan. A **strategic plan** is the company's overall plan for how it will maintain a successful competitive position, given its internal strengths and weaknesses and its external opportunities and threats. The strategic planner asks, "Where are we now as a business, and where do we want to be?" They then formulate a strategic plan to help guide the company to the desired end point.[9] When Walmart bought jet.com, it saw Amazon as an increasingly formidable competitor. But Walmart also saw that with its own thousands of stores and millions of customers, it could be wise to expand their online operations. Walmart's strategy for doing so? Buy jet.com.

strategic plan
The company's overall plan for how it will maintain a successful competitive position, given its internal strengths and weaknesses and its external opportunities and threats.

strategy
A course of action to achieve an overall aim.

A **strategy** is a course of action to achieve an overall aim. For example, both PepsiCo and Coca-Cola face the same basic problem—people are drinking fewer sugared drinks. However, they each chose different strategies to deal with this. PepsiCo *diversified* by selling more food items like chips. Coca-Cola *concentrated* on sweet beverages, and on boosting advertising to (hopefully) boost Coke sales.[10] Nestlé Purina Pet Care and Mars Pet Care compete in the pet food industry. Both basically define themselves in terms of making life better for pets. But Purina focuses on pet food. Meanwhile, Mars Pet Care is expanding into pet health, for example, buying a chain of pet hospitals.[11]

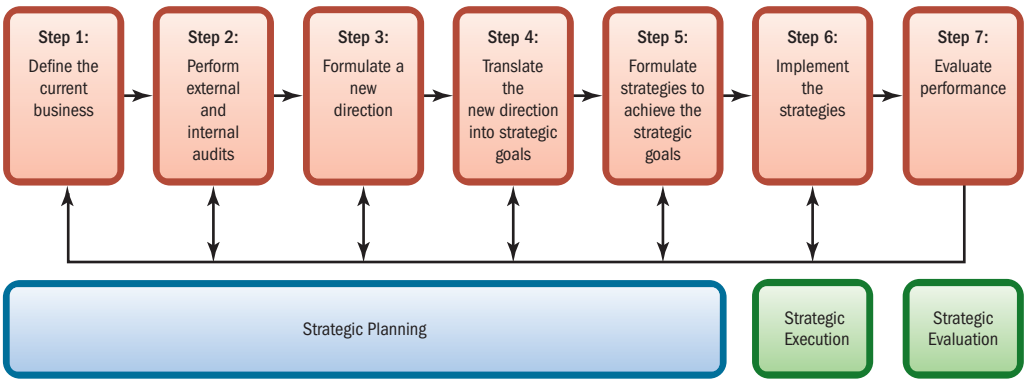
The Strategic Management Process

strategic management
The process of crafting, executing, and evaluating the organization's strategic plan.

Next, we can define **strategic management** as the process of crafting, executing, and evaluating the organization's strategic plan.

Figure 3-1 summarizes the steps in strategic management. These are (1) ask, "What business are we in now?"; (2) evaluate the firm's internal strengths and weaknesses, and its external opportunities and threats; (3) formulate a new business direction; (4) decide on strategic goals; and (5) choose specific strategies/courses of action to achieve those goals. Then, steps (6) and (7) are to implement and then evaluate the strategic plan.

FIGURE 3-1 The Strategic Management Process



Strategic Management Example

Walmart would have gone through a similar process in deciding to expand online by buying jet.com. **Step one** would be to ask, "What business are we in?" Here they would define their current business, in terms of "What products do we sell, where do we sell them, and how do our products or services differ from our competitors'?" Walmart had a powerful network of stores and distribution, but a limited online presence.

Step two is to ask, "*Are we in the right business*, given our strengths and weaknesses and the external challenges (such as Amazon) that we face?" To answer this, Walmart's managers would have studied both Walmart's environment and its internal strengths and weaknesses. Here the *environmental scan worksheet* in Figure 3-2 compiles information about important environmental trends. These include the economic, competitive, and political trends affecting the company. Managers also use the *SWOT chart* in Figure 3-3 to compile and organize the company's strengths, weaknesses, opportunities, and threats. The managers' external analysis may also include the PEST factors. These include Political factors, such as government regulations; Economic factors, including unemployment and economic growth; Social factors, such as changing demographics trends; and Technological factors such as social media, and self-driving vehicles.[12] So in step two, Walmart would have seen demand for online purchasing exploding, and itself with a competitive advantage of thousands of stores customers could use to pick up and return purchases.[13]

Executing step two—particularly predicting what could happen "out there" in the company's environment—isn't easy. The big events (like radically new products and technologies) are hard to predict. For example few car companies foresaw the impact of Uber and Tesla early on. And Nokia reportedly rejected its own iPhone-type technology in its earliest days. Effective environmental scanning therefore requires

FIGURE 3-2 Worksheet for Environmental Scanning

Economic Trends
(such as recession, inflation, employment, monetary policies)

Competitive and Market Trends
(such as market/customer trends, entry/exit of competitors, new products from competitors)

Political Trends
(such as legislation and regulation/deregulation)

Technological Trends
(such as introduction of new production/distribution technologies, rate of product obsolescence, trends in availability of supplies and raw materials)

Social Trends
(such as demographic trends, mobility, education, evolving values)

Geographic Trends
(such as opening/closing of new markets, factors affecting current plant/office facilities location decisions)

FIGURE 3-3 SWOT Matrix, with Generic Examples

Potential Strengths	Potential Opportunities
• Market leadership • Strong research and development • High-quality products • Cost advantages • Patents	• New overseas markets • Failing trade barriers • Competitors failing • Diversification • Economy rebounding
Potential Weaknesses	**Potential Threats**
• Large inventories • Excess capacity for market • Management turnover • Weak market image • Lack of management depth	• Market saturation • Threat of takeover • Low-cost foreign competition • Slower market growth • Growing government regulation

proactively and continuously challenging one's view of the status quo,[14] in terms of things like technology, geopolitics, and even disease: try to identify the early trends that could impact your business.[15]

Based on its step two analysis, Walmart's next task, in **step three,** is to decide *what should our new business be*, in terms of what we sell, where we will sell it, and how our products or services differ from competitors'? Walmart managers would decide to dramatically expand its online presence.

Their next step (**step 4**) would be to translate this desired new direction into *strategic goals*. For example, how much in new online sales do we want next year? What percent of our total sales and profits should be from online sales in five years?

Next, (**step 5)** the manager *chooses strategies*—courses of action—that will enable the company to achieve its strategic goals. For example, should Walmart try to achieve its goals by growing its then-existing online presence? Or should it buy a company like jet.com? (They chose the latter, of course.)[16]

Step 6, *strategy execution,* means translating the chosen strategies into action. This would have involved identifying jet.com as an acquisition candidate, buying it, and taking all those steps—such as hiring people and installing new methods for handling pickups and returns at the stores—that expanding online requires.

Finally, in **step 7**, the manager *evaluates* the results of his or her planning and execution. All managers should periodically assess their strategic decisions. Walmart's online sales increased 79% just in 2020–2021.[17]

(Separately, Netflix reported somewhat disappointing results around then, as it faced increasing competition from other streaming companies.)[18]

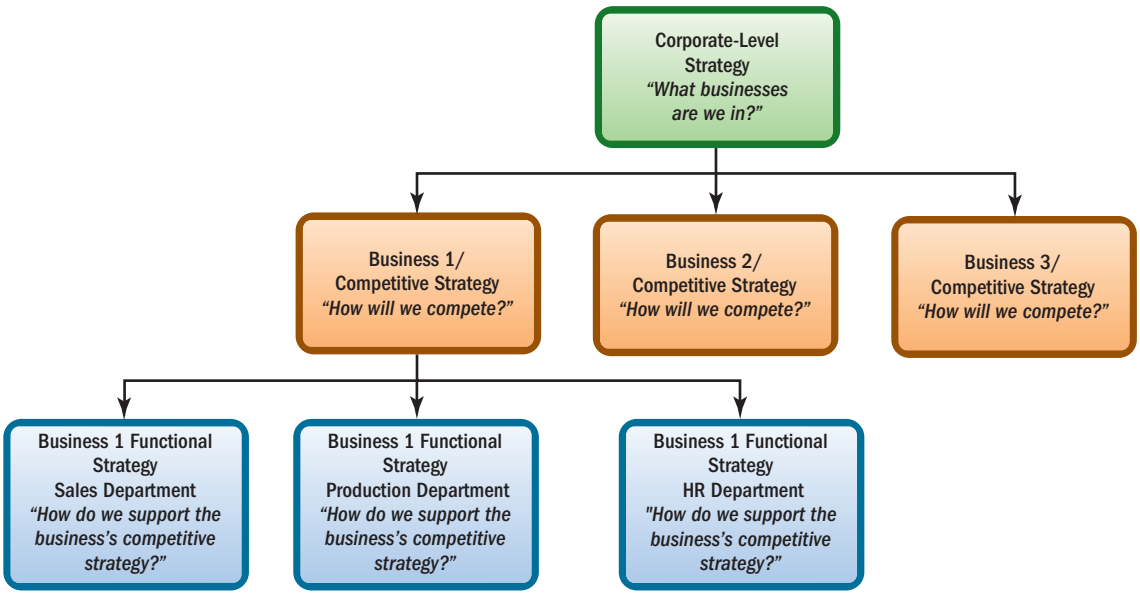
Types of Strategies

In practice, managers engage in three types of strategic planning. These are *corporate-level* strategic planning, *business unit* (or *competitive*) strategic planning, and *functional* (or *departmental*) strategic planning (see Figure 3-4).

corporate-level strategy
Type of strategy that identifies the portfolio of businesses that, in total, comprise the company and the ways in which these businesses relate to each other.

CORPORATE STRATEGY The Walmart example focused on corporate strategy. Corporate strategy addresses the question, "What business(es) should we be in?" Specifically, the company's **corporate-level strategy** identifies the portfolio of businesses that, in total, comprise the company, and how these businesses relate to each other. For example, with a *concentration* (single-business) corporate strategy, the company offers one product or product line, usually in one market. WD-40 Company is one example. With one spray lubricant, its product scope is narrow. A *diversification* corporate strategy means the firm will expand by adding new product lines. Here product scope is wider. PepsiCo is diversified. It added Frito-Lay chips and Quaker Oats to its drinks businesses. Similarly, both Google and Apple are moving into the self-driving car business.[19]

FIGURE 3-4 Type of Strategy at Each Company Level



A *vertical integration* corporate strategy means the firm expands by, perhaps, producing its own raw materials, or selling its products directly. Thus, Apple opened its own Apple stores. With a *consolidation* strategy, the company reduces its size. With *geographic expansion*, the company grows by entering new territorial markets, for instance, by taking the business abroad.

COMPETITIVE STRATEGY Once the manager decides what businesses to be in, each business unit needs a basis on which to compete. For example, within PepsiCo, each of its business units (such as Pepsi and Frito-Lay) should have a *business-level or competitive strategy*. This **competitive strategy** identifies how to build and strengthen the business unit's competitive position in the marketplace.[20] It answers the question, for instance, How should Ford compete with Tesla? or How should Walmart compete with Amazon?

competitive strategy
A strategy that identifies how to build and strengthen the business's long-term competitive position in the marketplace.

competitive advantage
Any factors that allow an organization to differentiate its product or service from those of its competitors to increase market share.

Managers build their competitive strategies around their businesses' competitive advantages. **Competitive advantage** means any factors that allow a company to differentiate its product or service from those of its competitors to increase market share. One of Walmart's competitive advantages is its thousands of stores that customers can use to pick up and return online purchases; now Amazon is adding physical stores too. Competitive advantages needn't be tangible. For example, Netflix considers its employees' creativity and decisiveness a competitive advantage.[21]

Managers typically emphasize one (or more) of three main standard competitive strategies—cost leadership, differentiation, or focus—to achieve competitive advantage. *Cost leadership* means becoming the low-cost leader in an industry; Walmart is an example. With *differentiation,* the firm seeks to be unique in its industry along dimensions that are widely valued by buyers.[22] Thus, Volvo stresses its cars' safety, and Artisan Pizza stresses fresh ingredients. *Focusers* carve out a market niche. Thus Jopwell.com is a "career advancement platform focusing on Black, Latinx, and Native American students and professionals."[23]

FUNCTIONAL STRATEGY Each of the company's departments will have a functional strategy. **Functional strategies** identify what each department must do in terms of specific policies to help the company accomplish its strategic goals. Thus, for, say, Apple to maintain its quality reputation, its R&D, production, marketing, and human resource departments must adhere to policies that are consistent with Apple's high-quality mission.[24] Second-best products, cheap packaging, or sloppy salespeople would not do.

functional strategy
A strategy that identifies what each department must do in terms of specific policies to help the company accomplish its strategic goals.

LEARNING OBJECTIVE 3-3

Define *strategic human resource management*, and give an example of strategic human resource management in practice.

Strategic Human Resource Management

What Is Strategic Human Resource Management?

strategic human resource management
Formulating and executing human resource policies and practices that produce the employee competencies and behaviors the company needs to achieve its strategic aims.

The human resource management department needs its own functional strategy. **Strategic human resource management** means formulating and executing human resource policies and practices that produce the employee competencies and behaviors the company needs to achieve its strategic aims. Figure 3-5 outlines this idea. First, the manager formulates *strategic plans and goals*. Next, the manager asks, "What "*employee skills and behaviors* will we need to achieve these plans and goals?" And finally, he or she asks, "Specifically what recruitment, selection, training, and other *HR policies and practices* should we put in place so as to produce the required employee skills and behaviors?"[25]

HR Strategy at The Portman Ritz-Carlton Shanghai Hotel

An example can illustrate how one company did this. When the Ritz-Carlton Company took over managing the Portman Hotel in Shanghai, China, the new management reviewed the Portman's strengths and weaknesses and its fast-improving local competitors. They decided that to compete, they had to improve the hotel's level of service. Achieving that in turn meant formulating new human resource management plans for hiring, training, and rewarding hotel employees. It meant putting in place a new human resource strategy for the Portman Hotel, one aimed at improving customer service. Their HR strategy involved taking these steps:

- *Strategically*, they set the goal of making the Shanghai Portman outstanding by offering superior customer service.
- To achieve this, Shanghai Portman employees would have to exhibit new *skills and behaviors*, for instance, in terms of how they treated and responded to guests.
- To produce these employee skills and behaviors, management implemented new human resource management *plans, policies, and procedures*. For example, they introduced the Ritz-Carlton Company's *human resource system* to the Portman: "Our selection [now] focuses on talent and personal values because these are things that can't be taught . . . it's about caring for and respecting others."[26] Several years ago, Ritz-Carlton became part of Marriott, but Ritz-Carlton's "Gold Standards" credo remains the same. It says, in part: "We pledge to provide the finest personal service and facilities for our guests who will always enjoy a warm, relaxed, yet refined ambience."[27]

The Portman's efforts paid off. Their new human resource plans and practices helped to produce the employee behaviors required to improve the Portman's level of service, thus attracting new guests. Travel publications were soon calling it the "best employer in Asia," "overall best business hotel in Asia," and "best business hotel in China," recognition that continues to this day.[28] Profits soared, in no small part due to effective strategic human resource management.[29]

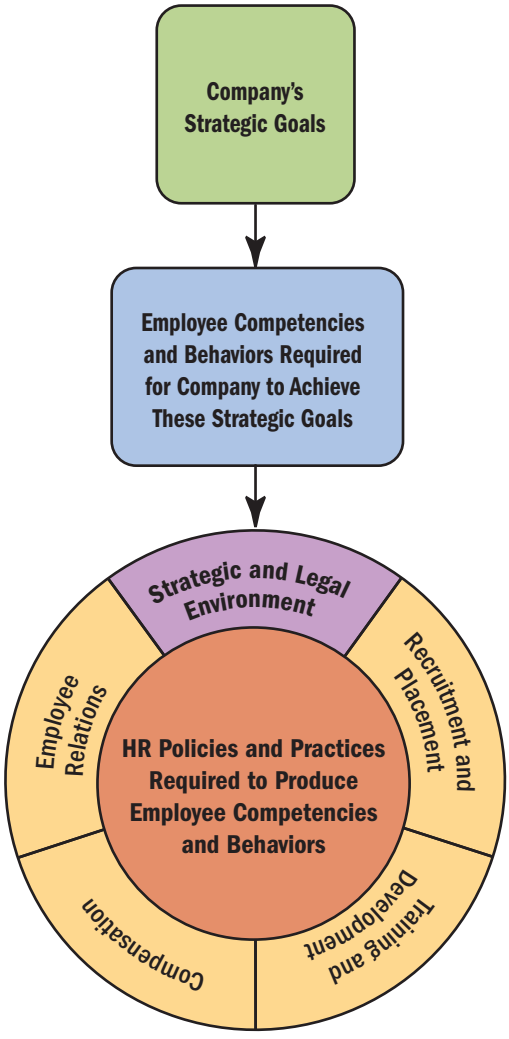


FIGURE 3-5 The HR Strategy Model

Note: This figure opens each chapter of this book and says this: The company's HR policies and practices should produce the employee competencies and behaviors that the company needs to achieve its strategic goals.

HR in Action at the Hotel Paris Starting as a single hotel in a Paris suburb in 1995, the Hotel Paris is now a chain of nine hotels, with two in France, one each in London and Rome, and others in New York, Miami, Washington, Chicago, and Los Angeles. To see how managers use strategic human resource management to improve performance, see the Hotel Paris Case at the end of this chapter and answer the questions.

Strategic Human Resource Management Tools

Managers use several tools to translate the company's strategic goals into human resource management policies and practices. These tools include the strategy map, the HR scorecard, and the digital dashboard.

strategy map
A strategic planning tool that shows the "big picture" of how each department's performance contributes to achieving the company's overall strategic goals.

STRATEGY MAP The **strategy map** summarizes how each department's performance contributes to achieving the company's overall strategic goals. It helps the manager and each employee visualize and understand the role his or her department plays in achieving the company's strategic plan. Management gurus sometimes say that the map clarifies employees' "line of sight." It does this by visually linking their efforts with the company's ultimate goals.[30]

Figure 3-6 presents a strategy-map example for Southwest Airlines. The top-level target is to achieve its profitability, costs, and revenue goals. Then the strategy map shows the chain of activities that help Southwest Airlines achieve these goals. Like Walmart, Southwest has a low-cost-leader strategy. So, for example, to boost revenues and profitability Southwest must fly fewer planes (to keep costs down), maintain low prices, and maintain on-time flights. In turn (further down the strategy map), on-time flights and low prices require fast turnaround. This, in turn, requires motivated ground and flight crews. The resulting strategy map helps each department understand what

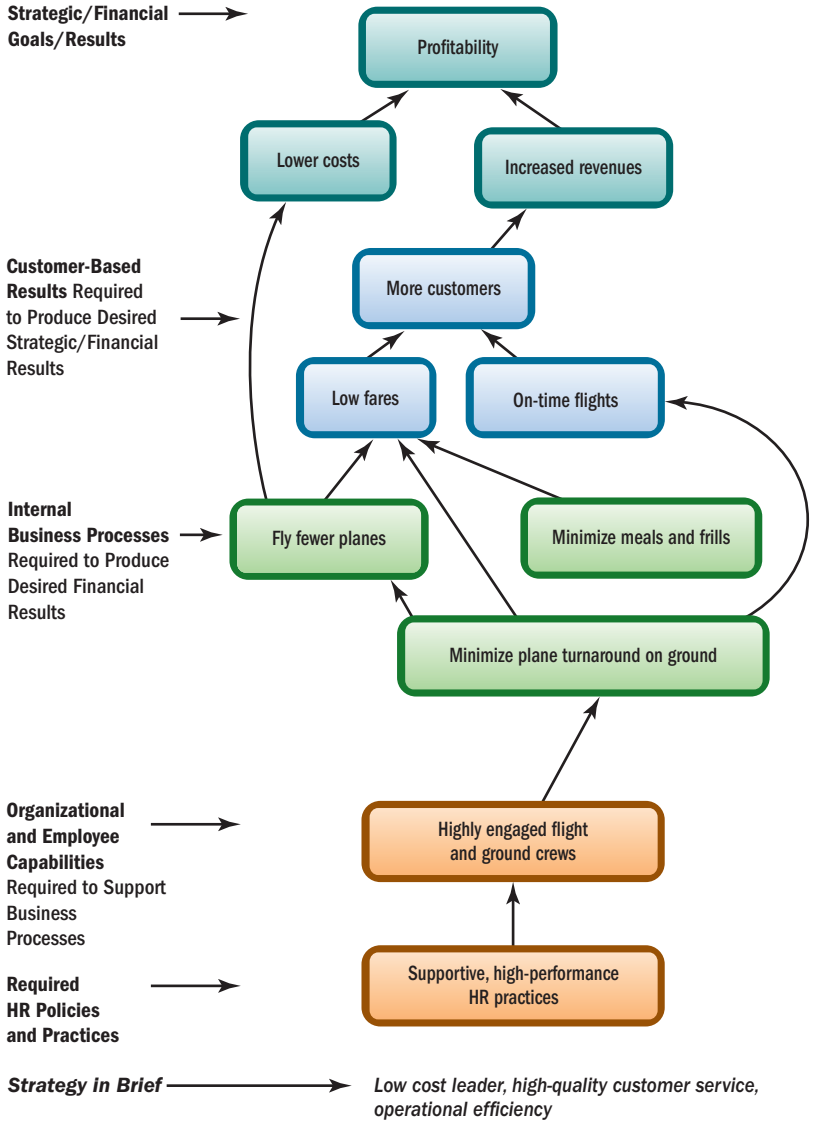
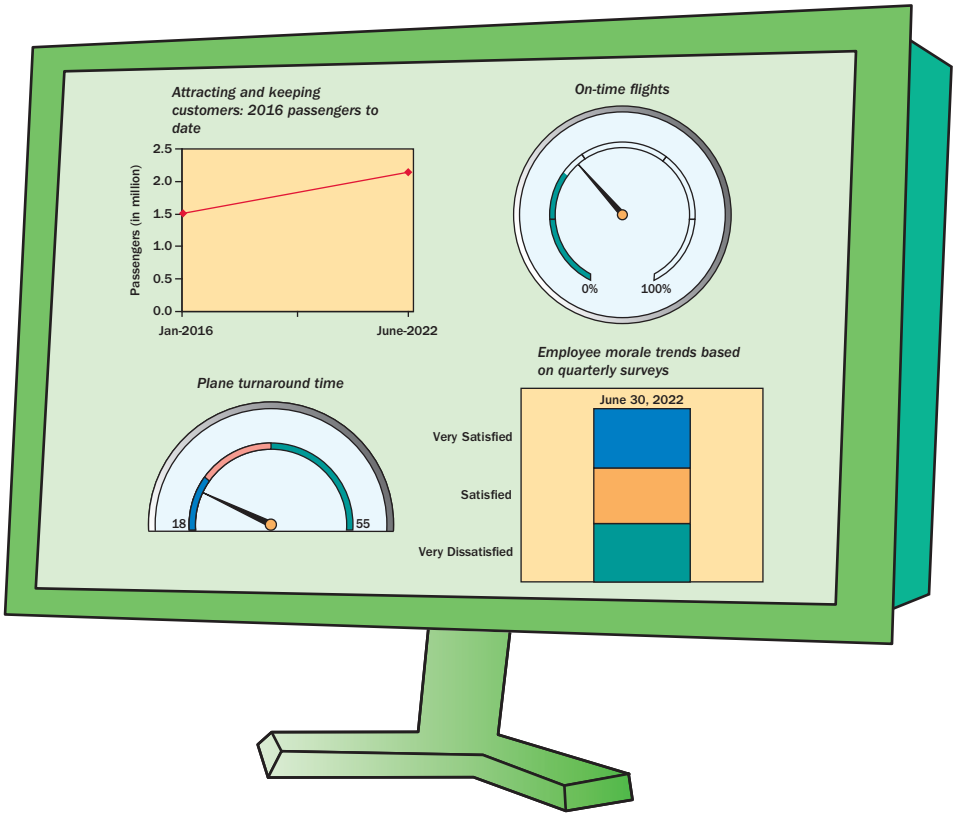


FIGURE 3-6 Strategy Map for Southwest Airlines

Source: Based on TeamCHRYSALIS.com, accessed July 2006; http://mcknightkaney.com/Strategy_Maps_Primer.html; www.strategymap.com.au/home/StrategyMapOverview.html.

A **digital dashboard** presents the manager with desktop graphs and charts, showing a computerized picture of how the company is doing on all the metrics from the HR scorecard process.



it needs to do to support Southwest's low-cost strategy.[31] For example, Southwest's human resource team would ask, What HR policies should we institute to boost our ground crews' motivation for fast turnarounds?

HR scorecard
A process for assigning financial and nonfinancial goals or metrics to the human resource management–related chain of activities required for achieving the company's strategic aims and for monitoring results.

THE HR SCORECARD Many employers quantify and computerize the strategy map's activities. The HR scorecard helps them to do so. The **HR scorecard** is not a scorecard. It refers to a process for assigning financial and nonfinancial goals or metrics to the human resource management-related strategy-map chain of activities required for achieving the company's strategic aims.[32] (Metrics for Southwest might include airplane turnaround time, percent of on-time flights, and ground crew productivity.) The idea is to take the strategy map and to quantify it.

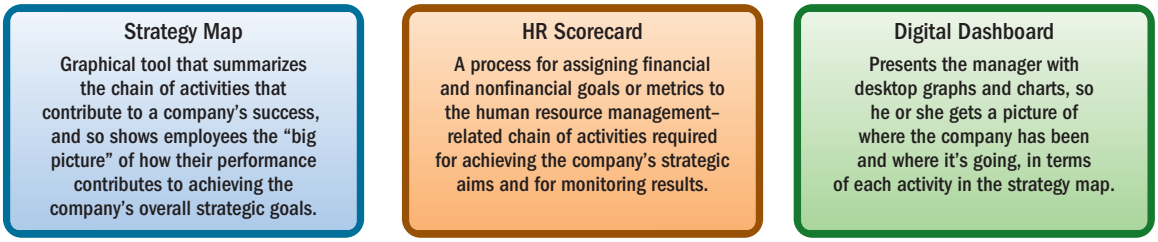
Managers use special scorecard software to facilitate this. The computerized scorecard process helps the manager quantify the relationships between (1) the HR activities (amount of testing, training, and so forth), (2) the resulting employee behaviors (fast turnarounds, and customer service, for instance), and (3) the resulting firmwide strategic outcomes and performance (such as customer satisfaction and profitability).[33] The HR scorecard is based on the "balanced scorecard" managerial planning approach. This aims to "balance" hard data such as financial measures with soft data such as on customer satisfaction, in assessing a company's performance.

digital dashboard
Presents the manager with desktop graphs and charts, and shows a computerized picture of where the company stands on all those metrics from the HR scorecard process.

DIGITAL DASHBOARDS A **digital dashboard** presents the manager with desktop graphs and charts, showing a computerized picture of how the company is doing on all the metrics from the HR scorecard process. Thus a top Southwest Airlines manager's dashboard (as above) might display real-time trends for various strategy-map activities, such as fast turnarounds and on-time flights. This enables the manager to take corrective action. For example, if ground crews are turning planes around slower today, financial results tomorrow may decline unless the manager takes action.

Figure 3-7 summarizes the three strategic planning tools.

FIGURE 3-7
Three Important Strategic HR Tools



LEARNING OBJECTIVE 3-4
Give at least five examples of HR metrics.

Assessing HR Performance: Metrics, Benchmarking, and Data Analytics

We've seen that strategic human resource management means formulating HR policies and practices that produce the employee competencies and behaviors the company needs to achieve its strategic goals.

Being able to measure results is essential to this process. For example, it would have been futile for the Portman Ritz-Carlton's managers to set "better customer service" as a goal if they couldn't measure customer service.[34] Other measures might include, for instance, hours of training per employee, productivity per employee, and (via customer surveys) customer satisfaction.

human resource metrics
The quantitative gauge of a human resource management activity, such as employee turnover, hours of training per employee, or qualified applicants per position.

Human resource managers use many such measures (or **"human resource metrics"**). For example, historically there has been (on average) 1 to 1.4 human resource employees per 100 company employees, with the ratio somewhat smaller for very large firms.[35] Other examples of human resource management metrics would include employee tenure, cost per hire, annual overall turnover rate, and hires vs leavers by quarter.[36]

Benchmarking

Just measuring how one is doing (for instance, in terms of employee tenure) is rarely enough for deciding "how we're doing." Instead, managers need comparative data. For example, are our accident rates rising or falling? Similarly, managers want to *benchmark* the results—compare high-performing companies' results to their own, to help understand what makes them better.[37]

Numerous vendors supply benchmarking-type information. The Society for Human Resource Management's (SHRM's) benchmarking service, which they are revising, enables employers to compare their own HR metrics with those of other companies.[38] Figure 3-8 illustrates one of the SHRM's sets of comparable benchmark measures. It shows how much employers are spending for tuition reimbursement programs. SHRM historically supplied comparable (benchmark) figures not just by industry, but by employer size, company revenue, and geographic region. Gartner's benchmarking reports are another example.[39] Oracle provides dashboards that managers use to comparatively monitor such metrics (see Figure 3-9).[40]

FIGURE 3-8 SHRM Customized Human Capital Benchmarking Report

Source: "HR Expense Data," from *SHRM Customized Human Capital Benchmarking Report*. Reprinted with permission from the Society for Human Resource Management. All rights reserved. www.shrm.org/Research/benchmarks/Documents/sample_humnba_capital_report.pdf.

Tuition/Education Data					
	n	25th Percentile	Median	75th Percentile	Average
Maximum reimbursement allowed for tuition/education expenses per year	32	$1,000	$5,000	$7,500	$6,000
Percentage of employees participating in tuition/education reimbursement programs	32	1.0%	3.0%	5.0%	4.0%

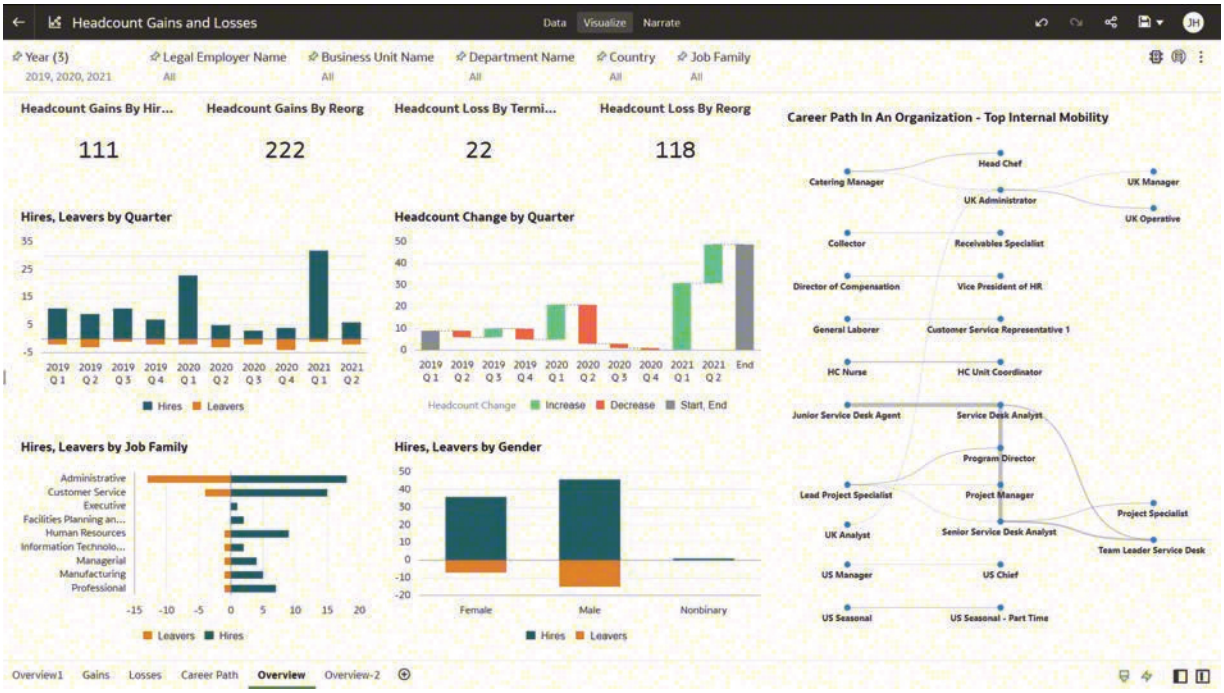


FIGURE 3-9 Visualization of Turnover Metrics

Source: https://www.oracle.com/webfolder/s/quicktours/paas/ba/pgqt-ba-pkg-hcm/index.html?source=:ad:pas:bi:dg:a_nas:71700000087873307-58700007461315648-p67076286780:RC_WWMK160606P00037C0001:MainAd, then go to Page 7; accessed January 23, 2022.

Strategy-Based Metrics

Benchmarking provides one perspective on how your company's human resource management system is performing.[41] It shows how your human resource management system is performing compared to the competition.

However, it may *not* reveal the extent to which your HR policies and practices are supporting your firm's strategic goals. For example, if the strategy calls for doubling profits by improving customer service, to what extent are our new training practices helping to improve customer service?

strategy-based metrics
Metrics that specifically focus directly on measuring the activities that contribute to achieving a company's strategic aims.

Managers use *strategy-based metrics* to answer such questions. **Strategy-based metrics** measure the activities that contribute directly to achieving a company's strategic aims.[42] Thus, for the Portman Shanghai, strategic HR metrics might include 100% employee testing, 80% guest returns, incentive pay as a percent of total salaries, and sales up 50%. If HR policies and practices such as increased training have their intended effects, then strategic metrics like guest returns should eventually rise too.

What Are HR Audits?

HR audit
An HR audit is an analysis of the completeness, efficiency, and effectiveness of the organization's HR functions, including its HR policies, practices, processes, and relevant metrics.

An **HR audit** is an analysis of the completeness, efficiency, and effectiveness of the organization's HR functions, including its HR policies, practices, processes, and relevant metrics.[43] The audit often involves (1) using a checklist to assess the company's human resource functions (recruiting, testing, training, and so on), as well as (2) ensuring that the firm is adhering to regulations, laws, and company policies. The HR auditor may first review payroll data, focusing on what and when each employee was paid. They will then turn to whether the human resource records are in order (for instance, are medical records kept separate from résumés?). That person will also review the employer's handbooks and policies, for instance, checking for disability accommodation policies, social media policies, and family and medical leave policies.[44]

Beyond that, HR audits vary in scope. Typical areas audited include[45]

1. Roles and headcount (including job descriptions, and employees categorized by exempt/nonexempt and full- or part-time).
2. Compliance with federal, state, and local employment-related legislation.
3. Recruitment and selection (including use of selection tools, background checks, and so on).
4. Compensation (policies, incentives, survey procedures, and so on).
5. Employee relations (union agreements, performance management, disciplinary procedures, employee recognition).
6. Mandated benefits (Social Security, unemployment insurance, workers' compensation, and so on).
7. Group benefits (insurance, time off, flexible benefits, and so on).
8. Payroll (such as legal compliance).
9. Documentation and record keeping. For example, do our files include résumés and applications, offer letters, job descriptions, performance evaluations, benefit enrollment forms, payroll change notices, and documentation related to personnel actions such as employee handbook acknowledgments?[46]
10. Training and development (new employee orientation, development, technical and safety, career planning, and so on).
11. Employee communications (employee handbook, newsletter, recognition programs).
12. Termination and transition policies and practices.

The accompanying Diversity Counts box illustrates how some employers are preparing to audit DEI efforts.

DIVERSITY COUNTS

Toward more Auditable DEI Standards

As a way to assess the quality of their products, many vendors adopt the quality standards of the International Organization for Standardization (ISO). The ISO recently began providing standards for human resource management activities.[47]

"Diversity and Inclusion" (ISO 30415:2021) is one part of these HR management standards. It include standards for Diversity and Inclusion activities such as *accessibility,* "the extent to which workplace environments, systems, and organizational products and services are accessible and can be used by the broadest range of people." *Accommodate* is a second example. This standard would cover, for instance, " . . . providing accessible information and assistive technologies, as well as time for treatment and rehabilitation, when applicable."[48] ■

Trends Shaping HR: Digital and Social Media

DATA ANALYTICS Data (facts and statistics) like monthly payroll costs are fairly useless until converted to information. *Information* is data presented in a form that makes it useful for making decisions. For example, knowing your cost per hire is interesting. However, presenting cost-per-hire data so it shows whether costs are trending up or down provides information you can use to make decisions.[49]

Data analytics means using statistical and mathematical analysis to find relationships and make predictions. For example, when Amazon uses algorithms to predict which books you're most likely to buy based partly on similarities between you and other groups, they are using data analytics.[50] At work, data analytics enables employers to analyze employee data (like employee demographics, training, and performance ratings). This data come both from traditional sources such as employee records, and from new sources (like company social media sites, GPS tracking, and

e-mail activity).[51] Data analytics relies on data mining. *Data mining* sifts through huge amounts of employee data to identify correlations that employers can use to improve their employee-selection and other HR practices. *Data mining* is "the set of activities used to find new, hidden, or unexpected patterns in data."[52]

Big data is basically data analytics on steroids. The basic idea (of scientifically analyzing data to find relationships and make predictions) is the same. However, with "big data" the volume, velocity, and variety of data analyzed are much greater. In terms of *volume,* for example, Walmart collects about 2.5 petabytes of data—2.5 million gigabytes—*every hour* from its customer transactions.[53] Similarly, in terms of *velocity*, all these data are being created more or less instantaneously (as at Walmart). That means companies can use them to quickly adapt in real time (for instance, to who's buying what products, and thus to adjust online promotions). Finally, big data capitalizes on the huge *variety* of data now available. For instance, data come not just from Walmart's transactions but from customers' mobile phones, GPS, and social networks too.

TALENT ANALYTICS How can HR managers use all this? *Talent analytics* is data analytics applied to HR issues. Employers use talent analytics to answer questions that in the past they couldn't answer, or couldn't answer as well. For example, Google and many other employers use talent analytics to answer questions such as, Are there turnover trends we should be concerned about? And, What are our top supervisors doing that keeps their teams' morale so high? The accompanying HR as a Profit Center box provides more examples.

HR AS A PROFIT CENTER

How Companies Use Talent Analytics

Talent analytics can produce striking profitability results. For example, Best Buy used talent analytics to discover that a 0.1% increase in employee engagement led to a more than $100,000 rise in a Best Buy store's annual operating income.[54] Employers use talent analytics to answer several types of talent management questions:

- **Human Capital Facts** For example, "What are the key indicators of my organization's overall health?" JetBlue found that employee engagement correlated with financial performance.
- **Analytical HR** For example, "Which units, departments, or individuals need attention?" Lockheed Martin collects performance data in order to identify units needing improvement.
- **Human Capital Investment Analysis** For example, "Which actions have the greatest impact on my business?" By monitoring employee satisfaction levels, Cisco improved its employee retention rate from 65% to 85%, saving the company nearly $50 million in recruitment, selection, and training costs. A Google talent analytics team analyzed data on employee backgrounds, capabilities, and performance.[55] It identified factors (such as an employee feeling underutilized) likely to lead to the employee leaving—which in turn helped it reduce turnover. Microsoft identified correlations among the schools and companies its employees arrived from and the employees' subsequent performance. This helped it improve its recruitment practices.[56] ■

Managers also use *organizational network analysis (OAN)*. OAN software analyzes how communications, decisions, and information flow through the company. This helps managers, for example, to unearth ideas for new products, that might otherwise go ignored, and to more easily identify high-potential/high-influence employees based on information flows.[57]

Science in Talent Management

The essence of data analytics is using data as evidence to make a measurable and objective review of the situation. *Evidence-based human resource management* means

using data, facts, analytics, scientific rigor, critical evaluation, and critically evaluated research/case studies to support human resource management proposals, decisions, practices, and conclusions.[58]

You may sense that being evidence-based is similar to being scientific, and if so, you are correct. A *Harvard Business Review* article even argued that managers must become more scientific and "think like scientists" when making business decisions.[59]

But how can managers think like scientists? Objectivity, experimentation, and prediction are the heart of science. In gathering evidence, scientists (or managers) first need to be *objective*, or there's no way to trust their conclusions. A medical school disciplined several professors. They had failed to reveal that they were on the payroll of the drug company that supplied the drugs, the results of which the doctors were studying. Who could trust their objectivity or conclusions?

Being scientific also requires *experimentation.* An experiment is a test one sets up in such a way as to ensure that you understand the reasons for the results obtained. For example, in their article, the authors argue that if you want to judge a new incentive plan's impact on corporate profits, don't start by implementing the plan with all employees. Instead, implement it with an "experimental" group (which gets the incentive plan). *And*, implement it with a "control" group (a group that does *not* get the incentive plan). Doing so will help you gauge if any performance improvement stemmed from the incentive or from some other cause (such as a new companywide training program).[60] And, it will enable you to *predict* how changing the incentive plan will affect performance.

For managers, the point of being "scientific" is to make better decisions by forcing you to gather the facts. "Is this sales incentive plan really boosting sales?" "We've spent $40,000 in the past 5 years on our tuition-refund plan; what (if anything) did we get out of it?" What's the evidence?

Successful HR managers need to be scientific today. As an example, the chemical company BASF Corp. used talent analytics to analyze data on the relationship among stress, health, and productivity in its 15,000 U.S. headquarters staff. Based on that analysis, the company instituted health programs. It calculated these would more than pay for themselves in increased productivity, by reducing stress.[61]

Throughout this book we will show examples of how managers use evidence to make better human resource management decisions. For example: Which recruitment source produces our best candidates? Does it pay to use this testing program? And, does our safety program really lead to fewer accidents?

LEARNING OBJECTIVE 3-5

Give five examples of what employers can do to have high-performance systems.

High-Performance Work Systems

One reason to measure, benchmark, and scientifically analyze HR practices is to identify high-performance work practices. A **high-performance work system (HPWS)** is a set of human resource management policies and practices that together produce superior employee performance.

high-performance work system (HPWS)
A set of human resource management policies and practices that promote organizational effectiveness.

What exactly are these high-performance work practices? One early study involved 17 manufacturing plants, some of which adopted what the researchers identified as high-performance work system practices. The "high-performance work system plants" paid more (median wages of $16 per hour compared with $13 per hour for all plants), trained more, used more sophisticated recruitment and hiring practices (tests and validated interviews, for instance), and used more self-managing work teams.[62] These plants did perform significantly better than those without such practices (the latter paid and trained less, and used more primitive selection tools, for instance). More recent studies tend to support such findings. Service companies (such as hotels) particularly gain from such high-performance work systems practices.[63] Employee "organizational citizenship behavior" in hotels was higher in HPWS hotels.[64] Such findings tend to stand up across cultures.[65] The effects of implementing such systems may not be apparent at once, but increase over time.[66]

Studies like these tend to show that high-performance work systems' policies and practices differ in measurable ways from less productive ones (Table 3-1). For example, high-performing companies recruit more job candidates, use more selection tests, and spend many more hours training employees. Table 3-1 illustrates three other things about HPWS.

First, it shows examples of *human resource metrics* such as training per employee, or qualified applicants per position. (In Table 3-1, the metric for "Number of qualified applicants per position" is 37 in the high-performing companies.) Managers use such metrics to assess their companies' performance and to compare their firm with another.[67]

Second, it illustrates *what employers must do* to have high-performance systems. For example, high-performing companies have more than four times the number of qualified applicants per job than do low performers. They also hire based on validated selection tests and extensively train employees.

Third, Table 3-1 shows that high-performance work practices usually *aspire to encourage employee involvement and self-management.* In other words, an aim of the high-performance recruiting, screening, training, and other HR practices is to nurture an engaged, involved, informed, empowered, and self-motivated workforce.[68]

TABLE 3-1 Illustrative Examples Selected from Several Studies of How Recruitment, Selection, Training, Appraisal, Pay, and Other HR Practices Differ in High-Performance and Low-Performance Companies

	Lower-Performance Companies' (e.g., company performance in terms of sales/employee, innovation, and employee retention) HR Practice Averages*	Higher-Performance Companies' (e.g., company performance in terms of sales/employee, innovation, and employee retention) HR Practice Averages*
Recruitment: Average number of qualified applicants per position	8	37
Selection: Average percentage of employees hired based on a validated *selection* test	4%	30%
Training: Average number of hours of *training* for new employees	35 hours	117 hours
Appraisal: Average percentage of employees receiving a regular *performance appraisal*	41%	95%
Pay Practices: Average percentage of the workforce eligible for *incentive pay*	28%	84%
Use of Teams: Average percentage of the workforce routinely working in all teams: semiautonomous, cross-functional, or project teams	11%	42%
Self-Directed Teams: Percent of companies with *semiautonomous or autonomous* work teams	9%	70%
Operational Information Sharing: Employees receive relevant operating performance information	62%	82%
Financial Information Sharing: Employees receive relevant financial performance information	43%	66%

*Findings rounded.

Based on "Comparison of HR Practices in High-Performance and Low-Performance Companies," by B. E. Becker, et al., from *The HR Scorecard: Linking People, Strategy and Performance* (Boston: Harvard Business School Press, 2001); Barry Macy, Gerard Farias, Jean-Francois Rosa, and Curt Moore, "Built to Change: High-Performance Work Systems and Self-Directed Work Teams—A Longitudinal Field Study," *Research in Organizational Change and Development,* 16, pp. 339–418, 2007; James Guthrie, Wenchuan Liu, Patrick Flood, and Sarah MacCurtain, "High Performance Work Systems, Workforce Productivity, and Innovation: A Comparison of MNCs and Indigenous Firms," The Learning, Innovation and Knowledge (LINK) Research Centre Working Paper Series, WP 04-08, 2008; Michael C. Campion, and Malika Masimova, "A High Performance Work Practices Taxonomy: Integrating the Literature and Directing Future Research," *Journal of Management*, 39, no. 5, July 2013, pp. 1184–1220.

LEARNING OBJECTIVE 3-6

Explain how you would design a program to improve employee engagement.

Employee Engagement Guide for Managers: Employee Performance and Engagement

Employee engagement refers to being psychologically involved in, connected to, and committed to getting one's jobs done. Engaged employees "experience a high level of connectivity with their work tasks" and work hard to accomplish their task-related goals.[69] Job engagement "denotes the extent to which an employee invests the full self in performing the job."[70]

Why Is Employee Engagement Important?

Employee engagement is important because it drives performance and productivity. For example, based on a Gallup survey, business units with the highest levels of employee engagement have an 83% chance of performing above the company median; those with the lowest employee engagement have just a 17% chance.[71] One review concluded that improvements in employee engagement were associated with significant increases in sales, product quality, customer service productivity, safety incidents at work, retention and absenteeism, and revenue growth.[72] One consulting firm estimated that a 5% increase in employee engagement correlates to increased operating margins.[73] Gallup reports that high engagement companies have 23% higher productivity, 10% more customer loyalty, and 18% less turnover.[74] Companies with highly engaged employees are less likely to be unionized.[75] In one survey, highly engaged employees lost only about 7.5 days of productivity per year, compared to about 14 days for disengaged employees.[76] One study found that IT employee engagement significantly improved organizational performance.[77]

The Employee Engagement Challenge

The challenge is that, depending on the study, only about 21–36% of employees nationally are engaged.[78] Gallup distinguishes among three levels of engagement. *Engaged employees* "work with passion and feel a profound connection to their company." *Not-engaged employees* are essentially "checked out." *Actively disengaged employees* "act out their unhappiness" by undermining what their engaged coworkers are accomplishing.[79] In 2021, Gallup reported that about 34% of employees were engaged and 16% were actively disengaged; engagement had thus dropped for the first time in a decade, (perhaps as a result of the pandemic).[80]

HR Tools for Line Managers and Small Businesses: What Can Managers Do to Improve Employee Engagement?

Managers improve employee engagement by taking concrete steps to do so. One apparently irreplaceable step is *providing supportive supervision.* For example, a Gallup survey found that managers who focus their support and coaching on their employees' strengths (rather than criticizing weaknesses) can "practically eliminate active disengagement"; conversely, "bosses from hell" kill employee engagement.[81]

Other steps to foster engagement include ensuring employees (1) *understand* how their departments contribute to the company's success, (2) *see how their efforts contribute* to achieving the company's goals, (3) get a *sense of accomplishment* from working at the firm,[82] and (4) are highly *involved*—as when working in self-managing teams.[83] Other steps include *provide subordinates with frequent recognition*, show appreciation for their contributions; make it clear that *you care about* your subordinates; and, let them know that *their opinions count*, by soliciting their opinions and acting on them.[84] Employers should *hold managers responsible* for employee engagement. [85] In 2020, managers at the financial giant Nationwide sought to improve employee engagement in the face of the pandemic. Steps they took included significantly increasing their *communication with employees*, and doing more to help employees *celebrate their successes.*[86]

How to Measure Employee Engagement

Firms like Gallup (www.gallup.com) and Willis Towers Watson (www.wtwco.com/en-US/Insights/2021/04/what-drives-employee-engagement) offer comprehensive

employee engagement survey services. (For example, Gallup has its Q[12] engagement survey.) However, abbreviated methods can be useful, too. 'With about 180,000 employees worldwide, the consulting firm Accenture uses a three-part "shorthand" method it calls "say, stay, and strive." First, Accenture assesses how positively the employee speaks about the company and recommends it to others. Second, it looks at who stays with the company, and why. Third, it looks at "strive." For instance, "do employees take an active role in the overall success of the organization by moving beyond just doing tasks to going above and beyond?"[87]

The Employee Engagement Guide for Managers sections in this and the following chapters show how managers use human resource activities to improve employee engagement.

How Kia Motors (UK) Improved Performance with an HR Strategy Aimed at Boosting Employee Engagement

Kia Motors is a successful automobile manufacturer employing tens of thousands of employees around the world. It is famous for its 10-year warranty and for the quality and value of its products. However, Kia was not always so successful. In July 1997, Kia was under bankruptcy protection and having difficulty servicing its $10.6 billion of debt.[88] In 1998, Hyundai Motorcar Company of Korea purchased 51% of Kia. That triggered a multiyear program aimed at improving Kia's operating performance. Today, Hyundai owns about one-third of Kia Motors, although Kia is still a close-knit part of Hyundai Motor Group.

THE CHALLENGES After several years of improving operating conditions under Hyundai Motor Group, Kia (as well as most auto manufacturers around the world) ran into strong headwinds as credit tightened and consumers cut spending around 2006. Looking at the situation in 2006–2007, Kia's chairman, writing in the company's annual report said,

> In today's automobile industry, competition is so severe that even the bold at heart, if well-informed, would be hesitant to confidently predict future victors in the car market. Japanese automobile companies are unrelenting in their measures against us, while latecomers, such as China, are speeding up to catch up with us as far as they can. Stagnation and the world economic growth, coupled with exchange-rate risks and other major threats, present unfavorable economic conditions for any global player.[89]

In the face of these challenges, the chairman went on to lay out what Kia's strategy for dealing with this intense global competition would be. As he said:

> We intend to base future growth on raising our competencies as a global maker in all areas including production, sales, marketing, branding, as well as before and after servicing. We will also concentrate on our global quality management we have driven so far. We will first strengthen our basic competitiveness in terms of production costs and final products. Second, we will exclude all the unnecessary elements from the management through advanced systems to groundwork the base of stable profit making. Third, we will efficiently invest in new future businesses with our specialized R&D and global production bases.[90]

Also in 2006–2007, Kia Motor's UK subsidiary (Kia UK), which employed about 2,500 people, faced particularly dire circumstances; these included rapidly falling sales, increased financial losses, and low levels of employee engagement. Employee turnover was 31%. The direct cost to the company from the 31% turnover alone was estimated at about 600,000 British pounds (about $1 million) in 2006. (This was due to higher than necessary recruitment, legal, and employee dismissal costs).[91]

THE NEW HUMAN RESOURCE MANAGEMENT STRATEGY Gary Tomlinson, Kia UK's newly appointed head of HR, believed that Kia UK's low employee engagement was probably both a cause and an effect of the unit's poor performance. In fact, a survey of

Kia UK employees had identified numerous personnel issues, including possibly poor morale and communications. He knew Kia UK needed a new HR strategy to address this. He also knew that this strategy should support the parent company's strategy of basing "future growth on raising our competencies as a global maker in all areas including production, sales, marketing, branding, as well as before and after servicing."

Tomlinson (with the support of Kia UK's top management) wisely decided to develop, as he put it, "an employee engagement strategy to improve employee morale and address the high levels of employee turnover."[92] In brief, the idea was that, by (1) putting in place new HR policies and practices aimed at improving employee engagement, he could (2) change Kia UK employees' behavior (improve performance and reduce turnover, for instance), and thereby (3) support the parent company's stated strategy of "raising our competencies as a global maker in all areas." The following shows what he actually did to boost employee engagement.

HOW TO EXECUTE AN EMPLOYEE ENGAGEMENT STRATEGY Actually executing Kia UK's employee engagement HR strategy involved six steps (and these provide a roadmap for any such endeavor). First, Kia UK set *measurable objectives* for the program. These objectives included improving by at least 10% survey feedback scores for line managers' behaviors in terms of communication, the quality of appraisal feedback they gave their direct reports, the recognition of work done, and the respect between manager and employee.[93] Other objectives included reducing employee turnover employment costs (e.g., recruitment costs) by at least 10% per year.

Second, Kia UK held an extensive *leadership development* program. For example, it sent all managers for training to improve their management skills. Kia then tested the new skills with "360-degree" assessment tools (having managers' bosses, peers, and subordinates rate the managers' new leadership skills).

Third, Kia UK instituted new *employee recognition programs.* These included, for instance, giving "Outstanding Awards" to selected employees quarterly, and "Kia thank you" cards for jobs well done.[94]

Fourth, Kia UK *improved internal communications.* For example, it instituted quarterly employee briefings and more extensive use of performance appraisals, and launched a new corporate intranet called Kia Vision (this provided key business information and other useful communiqués to all employees). Based on employee feedback, Kia UK also decided, as part of the enhanced communications, to institute an *employee forum.* This consisted of one representative from each department; the forum in effect empowered and involved employees by enabling them to express opinions, suggestions, and concerns about their jobs.

Fifth, Kia instituted a new *employee development program.* This involved using the company's appraisal process to identify employees' training needs. Kia then created training plans for each employee. It based these plans on Kia's needs and on the employee's stated career aspirations.

Sixth, Kia UK made a number of changes to its *compensation and other policies*. For instance, it eliminated bonuses and substituted fixed-rate percentage-based salary increases. It also rewrote the entire employee handbook and all HR policies and procedures "to ensure they were aligned with [Kia UK's new] cultural values."[95]

THE RESULTS The results of the new employee engagement program were impressive. Employee surveys of employee engagement and of line managers' communications and other behaviors improved markedly; employee turnover fell from 31% in 2006 to 15% in 2007, to 5% in 2008, and to below 2% by the end of 2009. Recruitment and turnover costs fell by more than 400,000 British pounds within two years, a 71% reduction.[96]

Earlier we said that *strategic human resource management* means formulating and executing human resource policies and practices that produce the employee competencies and behaviors the company needs to achieve its strategic aims. Kia UK's employee engagement program illustrates how one company actually did this.

Chapter Review

Chapter Section Summaries

3-1. **Policies** are broad guidelines delineating how employees should act. Procedures spell out what to do if a specific situation arises. Employers write their own policies and procedures or adapt them from existing sources, (or both). Most employers have employee handbooks containing their human resource policies and procedures. Managers formulate human resource policies that produce the employee skills and behaviors the company needs to achieve its goals. Managers' HR and other decisions should be consistent with the goals that cascade down from the top. Those goals form a hierarchy, starting with the president's overall strategic goals, and filtering down to what each individual manager needs to do in order to support that overall company goal.

3-2. A **strategic plan** is the company's overall plan for how, given its internal strengths and weaknesses and its external opportunities and threats, it will maintain a successful competitive position. The steps in the *strategic management process* include: (1) ask, "Where are we now as a business?"; (2) evaluate the firm's internal and external strengths, weaknesses, opportunities, and threats; (3) formulate a new business direction; (4) decide on strategic goals; and (5) choose specific strategies or courses of action; steps (6) and (7) are to implement and then evaluate the strategic plan. We distinguished among **three types of strategies:** corporate, business/competitive, and functional/department strategies.

3-3. Each function or department in the business needs its own functional strategy, and **strategic human resource management** means formulating and executing human resource policies and practices that produce the employee competencies and behaviors the company needs to achieve its strategic aims. Human resource strategies are the specific human resource management policies and practices managers use to support their strategic aims. Important and popular **strategic human resource management** tools include the strategy map, the HR scorecard, and digital dashboards.

3-4. The manager will want to gather and analyze data prior to making decisions. **Human resource metrics** (quantitative measures of human resource management activities such as employee turnover) are critical in creating high-performance human resource policies and practices.

3-5. A **high-performance work system** is a set of human resource management policies and practices that together produce superior employee performance.

3-6. Employee engagement is important because it drives performance and productivity. Actually **executing Kia UK's employee engagement HR strategy** involved six steps. These were: set *measurable objectives* for the program; provide *leadership development,* for example, send all managers for training to improve their management skills; institute new *employee recognition programs,* for instance, giving "Outstanding Awards" to selected employees quarterly; provide *improved internal communications*; institute a new *employee development program,* for instance, using the company's appraisal process to identify employees' training needs and to create training plans for each employee; and change the *compensation* and *other policies* to ensure they are aligned with the new cultural values.

Discussion Questions

3-1. Give an example of hierarchical planning in an organization.

3-2. What is the difference between a corporate strategy and a competitive strategy? Give one example of each.

3-3. Explain why strategic planning is important to all managers.

3-4. Explain with examples each of the seven steps in the strategic management process.

3-5. Explain with examples how human resources management can be instrumental in helping a company create a competitive advantage.

3-6. Outline how you would implement an employee engagement program.

Individual and Group Activities

3-7. With three or four other students, form a strategic management group for your college or university. Your assignment is to develop the outline of a strategic plan for the college or university. This should include such things as strategic goals and corporate, competitive, and functional strategies. In preparing your plan, make sure to show the main strengths, weaknesses, opportunities, and threats the college faces, and which prompted you to develop your particular strategic plans.

3-8. Using the Internet or library resources, review the annual reports of five companies. Bring to class examples of how those companies say they are using their HR processes to help the company achieve its strategic goals.

3-9. Interview an HR manager and write a short report on "The Strategic Roles of the HR Manager at XYZ Company."

3-10. Using the Internet or library resources, bring to class and discuss at least two examples of how companies are using the HR scorecard to help create HR systems that support the company's strategic aims. Do all managers seem to mean the same thing when they refer to HR scorecards? If not, how do they differ?

3-11. In teams of several students, choose a company for which you will develop an outline of a strategic HR plan. What seem to be this company's main strategic aims? What is the firm's competitive strategy? What would the strategic map for this company look like? How would you summarize your recommended strategic HR policies for this company?

3-12. The HRCI *Exam Content Outline* Website https://www.hrci.org/docs/default-source/web-files/phr-exam-content-outline.pdf?sfvrsn=13c44f61_28 lists the knowledge (see "Knowledge of") someone studying for the HRCI PHR certification exam needs to have in each area of human resource management (such as in Business Management, and in Talent Planning and Acquisition.)[i] In groups of several students, do four things: (1) review the *Exam Content Outline* on that website; (2) identify the material in this chapter that relates to the Exam Content Outline's required "Knowledge Of" lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.

Experiential Exercise

Developing an HR Strategy for Starbucks

Written and copyrighted by Gary Dessler, PhD.

Several years ago, Starbucks was facing serious challenges. Sales per store were stagnant or declining, and its growth rate and profitability were down. Many believed that its introduction of breakfast foods had diverted its "baristas" from their traditional jobs as coffee-preparation experts. McDonald's and Dunkin' Donuts were introducing lower-priced but still high-grade coffees. Starbucks' former CEO stepped back into the company's top job. You need to help him formulate a new direction for his company.

Purpose: The purpose of this exercise is to give you experience in developing an HR strategy, in this case, by developing one for Starbucks.

Required Understanding: You should be thoroughly familiar with the material in this chapter.

How to Set Up the Exercise/Instructions: Set up groups of several students for this exercise. You are probably already quite familiar with what it's like to have a cup of coffee or tea in a Starbucks coffee shop, but if not, spend some time in one prior to this exercise. Meet in groups and develop an outline for an HR strategy for Starbucks Corp. Assume that for a corporate strategy Starbucks will remain primarily an international chain of coffee shops. Your outline should include four basic elements: a business/competitive strategy for Starbucks; the workforce requirements (in terms of employee competencies and behaviors) this strategy requires; specific HR policies and the activities necessary to produce these workforce requirements; and suggestions for metrics to measure the success of the HR strategy.

[i]As of October 4, 2022.

Application Case

Tesla's Strategy

Written and copyrighted by Gary Dessler, PhD.

Today, Tesla Motors has a market value higher than the much-larger General Motors.[97] However, things didn't always go smoothly.

Tesla's strategic plan, formulated in 2006 by company founder Elon Musk, was to start by offering a high-performance energy-efficient electric roadster "without compromises" and then expand to offer less-expensive family cars, while eventually enabling battery recharging with solar power devices.[98]

By 2017, it was clear that Tesla was not soon going to achieve its goal of producing 5,000 Model 3 family sedans per week, and the company also faced numerous human resource management–related challenges.[99]

For example, hundreds of workers stopped building Tesla's battery factory near Reno, Nevada, claiming that outside contract workers were lowering their pay. Workers at Tesla's car plant complained of high employee accident rates. Musk reportedly said that Tesla wasn't skimping on safety to make more profit, but rather to survive and continue to offer employment.

Tesla also laid off about 700 workers at its California manufacturing facility. Many union activists asked why, having to ramp up production of the new Tesla Model 3, the company would dismiss so many employees. Some felt it wasn't because of poor performance reviews, but because Tesla wanted to fire employees who wanted a union. Elon Musk defends dismissing the 700 workers. Basically, he said (1) most companies have performance reviews and use them to screen out employees, and (2) because it wants the highest-quality cars, Tesla needs to have higher performance standards than its competitors. As Musk says, if a little company wants to compete with a giant one, the little one must have a lot more skill, or it will get pummeled.

Some of Tesla's HR procedures are also somewhat unusual. For example, Tesla requires that new employees sign confidentiality agreements prohibiting them from discussing Tesla's business strategy and working conditions. The United Auto Workers filed unfair labor practice charges against Tesla, claiming that such agreements violate employees' rights.

Tesla does use some sophisticated HR tools to improve its HR processes. For example, they used talent analytics to determine if employee referral programs improve their recruitment and retention processes and distributed an employee engagement survey.

By May 2017, Tesla appointed a new HR head, Gaby Toledano, with the title Chief People Officer. In announcing the appointment, Tesla noted that she would help Tesla address its labor and harassment disputes. Ms. Toledano acknowledged that some disputes between workers weren't reaching the HR office fast enough, but she said she's working on the problem. Furthermore, Tesla employees receive antidiscrimination and antiharassment training.

Questions

3-13. Was Tesla's human resource strategy consistent with its overall strategy to produce "uncompromising" high-performance cars?

3-14. Given what Kia UK accomplished, should Tesla implement such an engagement program? Why?

3-15. What would you do now if you were Tesla's Chief People Officer?

3-16. Based on the case, provide examples for Tesla of at least four strategically required organizational outcomes, and four required workforce competencies and behaviors.

3-17. Provide a brief illustrative outline of a strategy map for Tesla.

Application Case

The Zappos "Wow" Way

Zappos' founder believed that when your strategy involves selling shoes and clothes online to people who can't try them on, you need employees who are energized and enjoy what they're doing. That's because Zappos (part of Amazon) wants employees to deliver what the founder called "WOW" through service.[100] That's why Zappos knew they needed special policies for hiring, developing, and retaining employees, and that's just what they created. They designed their HR recruiting, selection, benefits, and other policies to encourage employee energy and enjoyment.[101]

While they may not appeal to everyone, these "fun, inventive techniques" include interviewing job applicants in what looks like the set of a talk show, and asking employees to submit their own designs for Steve Madden shoes. And, (during Zappos' annual "Bald & Blue Day") it means having some employees volunteer to shave their heads or dye their hair blue.[102] Furthermore, if you're not happy working at Zappos, the company's separation policy will pay you to leave—Zappos wants no one there who doesn't truly want to be there.[103]

Again, that may not be for everyone, but it works for Zappos. It believes that selling online profitably requires energized employees who really enjoy what they're doing. Management therefore uses its HR policies to cultivate the energized and fun environment that Zappos needs to execute its strategy.

Questions

3-18. Given this, write two or three more examples of what you believe Zappos could actually use as HR policies.

3-19. Not all successful online companies emphasize having employees enjoy work to the extent that Zappos does. Zappos developed its HR policies to nurture a fun environment. What alternative to fostering "fun and enjoyment" at work do you think might have worked for Zappos? What is one example of an HR policy that would have fit this new goal?

Continuing Case

Carter Cleaning Company

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The High-Performance Work System

As a person who keeps up with the business press, Jennifer Carter is familiar with the benefits of programs such as total quality management and high-performance work systems.

Jack, her father, actually installed a total quality program of sorts at Carter, and it has been in place for about 5 years. This program takes the form of employee meetings. Jack holds employee meetings periodically, but particularly when there is a serious problem in a store—such as poor-quality work or machine breakdowns. When problems like these arise, instead of trying to diagnose them himself or with Jennifer, he contacts all the employees in that store and meets with them when the store closes. Hourly employees get extra pay for these meetings. The meetings have been useful in helping Jack to identify and rectify several problems. For example, in one store all the fine white blouses were coming out looking dingy. It turned out that the cleaner/spotter had been ignoring the company rule that required cleaning ("boiling down") the perchloroethylene cleaning fluid before washing items like these. As a result, these fine white blouses were being washed in cleaning fluid that had residue from other, earlier washes.

Jennifer now wonders whether these employee meetings should be expanded to give the employees an even bigger role in managing the Carter stores' quality. "We can't be everywhere watching everything all the time," she said to her father. "Yes, but these people only earn about $10 to $15 per hour. Will they really want to act like mini-managers?" he replied.

Questions

3-20. Would you recommend that the Carters expand their quality program? If so, specifically what form should it take?

3-21. Assume the Carters want to institute a high-performance work system as a test program in one of their stores. Write a one-page outline summarizing important HR practices you think they should focus on.

Translating Strategy into HR Policies and Practices Case*

Improving Performance at the Hotel Paris

The Hotel Paris International

Starting as a single hotel in a Paris suburb in 1995, the Hotel Paris is now a chain of nine hotels, with two in France, one each in London and Rome, and others in New York, Miami, Washington, Chicago, and Los Angeles. As a corporate strategy, the Hotel Paris's management and owners want to continue to expand geographically. They believe doing so will let them capitalize on their reputation for good service, by providing multicity alternatives for their satisfied guests. The problem is, their reputation for good service has been deteriorating. If they cannot improve service, it would be unwise for them to expand, since their guests might prefer other hotels after trying the Hotel Paris.

Several things are complicating their problem. Tourists increasingly stay at short-term rental apartments (often through sites such as airbnb.com) for a fraction of what fine hotels cost. In 2018 Airbnb agreed to more stringently comply with the limits on the lengths of rentals in the heart of Paris, but not elsewhere. Marriott recently acquired the Starwood hotels chain (including many brands such as Ritz-Carlton) and will present increased competition. And the election as French president of Emmanuel Macron prompted widespread optimism among many in France regarding the country's growth prospects, but also the possibility of some labor strife, at least in the short run.

The Strategy

Top management, with input from the HR and other managers, and with the board of directors' approval, chooses a new competitive strategy and formulates new strategic goals. It decides: "The Hotel Paris International will use superior guest services to differentiate the Hotel Paris properties, and to thereby increase the length of stays and the return rate of guests, and thus boost revenues and profitability." All Hotel Paris managers—including the director of HR services—must now formulate strategies that support this competitive strategy.

The Strategically Required Organizational Outcomes

The Hotel Paris' basic strategy is to use superior guest services to expand geographically. For HR director Lisa Cruz, reviewing the hotel's activities makes it clear that achieving the hotel's strategic aims means achieving a number of required organizational outcomes. For example, Lisa and her management colleagues must take steps that produce fewer customer complaints and more written compliments, more frequent guest returns and longer stays, and higher guest expenditures per visit.

The Strategically Relevant Workforce Competencies and Behaviors

The question facing Lisa, then, is this: What competencies and behaviors must our hotel's employees exhibit, if we are to produce required organizational outcomes such as fewer customer complaints, more compliments, and more frequent guest returns? Thinking through this question helps Lisa come up with an answer. For example, the hotel's required employee competencies and behaviors would include, "high-quality front-desk customer service," "taking calls for reservations in a friendly manner," "greeting guests at the front door," and "processing guests' room service meals efficiently." All require motivated, high-morale employees.

The Strategically Relevant HR Policies and Activities

The HR manager's task now is to identify and specify the HR policies and activities that will enable the hotel to produce these crucial workforce competencies and behaviors. For example, "high-quality front-desk customer service" is one such required behavior. From this, the HR director identifies HR activities to produce such front-desk customer service efforts. For example, she decides to *institute practices to improve the disciplinary fairness and justice in the company*, with the

*The overall strategy map on the inside back cover of this text outlines the relationships involved.

aim of *improving employee morale*. Her assumption is that enhanced fairness will produce higher morale and that higher morale will produce improved front-desk service.

The Strategy Map

Next, Lisa, working with the hotel's chief financial officer (CFO), outlines a strategy map for the hotel. This outlines the cause-and-effect links among the HR activities, the workforce behaviors, and the organizational outcomes (the figure on this book's inside back cover shows the overall map).

This map and its linkages reflect certain assumptions on Lisa's part. For example, based on experience and discussions with the firm's other managers, she formulates the following *hypothesis* about how HR affects hotel performance: Improved grievance procedures cause improved morale, which leads to improved front-desk service, which leads to increased guest returns, which leads to improved financial performance. The HR director then chooses metrics to measure each of these factors. For example, she decides to measure "improved disciplinary procedures" in terms of how many grievances employees submit each month. She measures "improved morale" in terms of "scores on our hotel's semiannual attitude survey," and measures "high-quality front-desk customer service" in terms of "customer complaints per month."

She moves on to quantifying the cause-and-effect links among these measures. For example: "Can we show top management that there is a measurable, sequential link between improved disciplinary procedures, high morale, improved front-desk service, number of guest return visits, and hotel financial performance (revenues and profits)?" If she can show such links, she has a persuasive case that shows HR's measurable contribution to the hotel's bottom-line financial performance.

In practice, the HR manager may well just rely on a largely subjective but logical argument to make the case for such cause-and-effect linkages. But ideally, she will use statistical methods such as correlation analysis to determine if measurable links exist, and (if so) what their magnitudes are. In this way, she might find, for instance, that a 10% improvement in grievance rates is associated with an almost 20% improvement in morale. Similarly, a 20% improvement in morale is associated with a 30% reduction in customer front-desk complaints. Furthermore, a 30% reduction in complaints is associated with a 20% increase in guest return visits, and a 20% increase in return rate is associated with a 6% rise in hotel revenues. It would appear that a relatively small HR effort in reducing grievances might have a big effect on this hotel's bottom-line performance!

Several things complicate this measurement process. For example, it's risky to draw cause–effect conclusions from correlation measures like these (do fewer grievances lead to higher morale, or vice versa?). Furthermore, it's rare that a single factor (such as grievance rates) will have such effects alone, so we may want to measure the effects of several HR policies and activities on morale simultaneously.

As explained in this chapter, computerization could enable Lisa to build a more comprehensive HR scorecard process, one that might handle links among dozens of cause-and-effect metrics. (Several vendors supply such scorecard software.) If not, then she will rely more on the logic and common sense underlying the strategy map to make her case.

How We Will Use the Hotel Paris Case

A Hotel Paris case in each chapter will show how Lisa, the Hotel Paris's HR director, uses that chapter's concepts and techniques to: (1) create HR policies and practices that help the Hotel Paris, (2) produce the employee competencies and behaviors the company needs, (3) produce the customer service the Hotel Paris requires to achieve its strategic goals.

For example, she will endeavor to improve workforce competencies and behaviors by instituting improved recruitment processes (Chapter 5), and measure improved recruitment in terms of "number of qualified applicants per position." Similarly, she will recommend to management that they change the company's pay policies, so that the "target percentile for total compensation is in the top 25%." She could argue, based on competitors' experience, that doing so will translate into improved customer service behavior, more satisfied customers, and improved hotel performance. In practice, all the human resource management functions we discuss in this book influence employee competencies and behaviors, and thereby organizational performance.

The summary map on the inside back cover of this book outlines the overall relationships involved for the Hotel Paris.

Questions

3-22. Draw a more simplified and abbreviated strategy map for the Hotel Paris. Specifically, summarize in your own words an example of the hierarchy of links among the hotel's *HR practices*, necessary *workforce competencies* and behaviors, and required *organizational outcomes*.

3-23. Using sources such as Table 3-1 and Figure 3-9, list at least 8 metrics the Hotel Paris could use to measure its HR practices.

CHAPTER 3

Writing Assignments

3-24. Define and give at least two examples of a cost-leadership competitive strategy and a differentiation competitive strategy.

3-25. You own a small business, and your friend, over lunch, just mentioned that "it sounds like you have an employee engagement problem." What exactly would you do to improve employee engagement in your company now?

Key Terms

strategic plan, 64
strategy, 64
strategic management, 64
corporate-level strategy, 66
competitive strategy, 67
competitive advantage, 67
functional strategy, 67
strategic human resource management, 68
strategy map, 69
HR scorecard, 70
digital dashboard, 70
human resource metrics, 71
strategy-based metrics, 72
HR audit, 72
high-performance work system (HPWS), 75

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4 Job Analysis and the Talent Management Process

WHERE ARE WE NOW . . .

Managers should know what a job entails before deciding who to hire for it. Therefore, *human resource management* usually starts with determining what the job entails. The main purpose of this chapter is to show you how to analyze jobs and write job descriptions.

We discuss several techniques for analyzing jobs, and explain how to write job descriptions and job specifications. The main topics we address include **The Talent Management Process; The Steps in Job Analysis; Methods for Collecting Job Analysis Information; Writing Job Descriptions; Writing Job Specifications;** and **Using Competencies Models**. Then, in Chapter 5 (Personnel Planning and Recruiting), we'll see how to find and recruit the employees you need.

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

4-1 **Define** talent management, and explain what talent management-oriented managers do.

4-2 **Discuss** the process of job analysis, including why it is important.

4-3 **Explain and use** at least three methods of collecting job analysis information.

4-4 **Explain** how you would write a job description, and what sources you would use.

4-5 **Explain** how to write a job specification.

4-6 **Give** examples of competency-based job analysis.

For an innovative company, Apple's organization chart is surprising.[1] When innovation is the goal, managers often organize around products (such as iPhone and iPad). That way each unit's general manager controls all the functions (such as R&D and Engineering) required to create a new product. They needn't waste time going outside for assistance. Apple, however, is organized around functions like Engineering, Software, and Design. "Functional" organizations like that are more usually associated with industries such as steel, where efficiency, not innovation, is key. We'll see why Apple organizes as it does.

LEARNING OBJECTIVE 4-1

Define talent management, and explain what talent management-oriented managers do.

The Talent Management Process

For many people, Chapters 4–13 represent the heart of this book, specifically recruitment, selection, training, appraisal, career planning/succession, and compensation. In brief, these are the human resource management activities that focus on attracting, developing, and motivating the company's employees or "talent."

Managers often think of these HR activities as a series of steps:

1. Decide what positions to fill, through *job analysis*, personnel planning, and forecasting.
2. Build a pool of job applicants, by *recruiting* internal or external candidates.
3. Obtain application forms and perhaps have initial screening interviews.
4. Use *selection* tools like tests, interviews, background checks, and physical exams to identify viable candidates.
5. Decide to whom to make an offer.
6. Orient, *train, and develop* employees so they have the competencies to do their jobs.
7. *Appraise* employees to assess how they're doing.
8. *Compensate* employees to maintain their motivation.

This stepwise view makes some sense. For example, the employer needs job candidates before selecting whom to hire.

The problem with the stepwise view is twofold. First, the process usually isn't really stepwise. For example, managers don't just train employees (step 6 in the preceding list) and then appraise how they're doing (step 7). Instead (to use our example), the appraisal may well also loop back to shape the employee's subsequent training. So, rather than view these eight HR activities as stepwise, it is usually best to view them holistically—because the steps interactively affect each other and work together.

The second problem is that focusing just on each step may cause the manager to miss the forest for the trees. It's not just each step but the *results you obtain* by applying them together that's important. So, second, it's important to remember that each and every step should be focused on achieving, in unison, some specific result (such as, say, improving customer service).

What is Talent Management?

talent management
The integrated and results-oriented process of recruiting, selecting, developing, motivating, and retaining employees.

Recognizing this, the trend today is to view these eight activities not stepwise but as part of a coordinated *talent management* effort.[2] We can define **talent management** as *the integrated and results-oriented process of recruiting, selecting, developing, motivating, and retaining employees*.[3] In brief, it is that part of human resource management that focuses on hiring, developing and retaining the best employees given the company's situation, and on doing so in a coordinated way.

What does this mean in practice? The manager who takes a talent management approach to human resource management takes actions such as:

1. *Asking* "What recruiting, testing, training, or pay actions should I take to produce the employee skills, knowledge, and behaviors ('competencies') we need *to achieve our company's goals*?"
2. *Treating* HR activities as interrelated. For example, having employees with the right skills depends as much on recruiting and testing as on training.
3. *Using* the same model or "profile" of required human competencies for formulating a job's recruitment plans as for making selection, training, appraisal, and pay decisions for the job.
4. *Ensuring* the HR functions (such as recruiting, and training) are all coordinated to focus on the same ends. Doing so often involves using talent management software.

Talent Management Software

Talent management software does several things. First, it automates many of the talent management steps. For instance it can scan recruitment sources and identify and rank qualified candidates. Second, it helps coordinate the results of activities such as training and appraisal—for example did the training lead to improved appraisals?

Many vendors offer such software. Oracle says its Talent Management suite helps the manager to "attract the best candidates, boost productivity, and improve decisions with end-to-end talent management."[4] Censia's *Talent Intelligence Platform*[5] among other things, helps employers to:

- Recruit, develop, and retain a high-quality, diverse workforce
- Identify workforce skill gaps, and where you need to be hiring
- Track alignment with diversity and inclusion initiatives
- Identify highly qualified candidates in seconds
- Rank best-fit candidates automatically, and get instant candidate comparisons
- Match current employee talent capabilities to new roles
- Improve employee engagement and decrease churn[6]

LEARNING OBJECTIVE 4-2

Discuss the process of job analysis, including why it is important.

Introduction to Job Analysis

Talent management often starts with *job analysis*—determining the duties of the jobs to be filled, and the human traits and competencies employees need to do those jobs effectively. In turn, determining each job's duties requires understanding the basics of *organizing* a company.

Fundamentals of Organizing

organization chart
A chart that shows the organization-wide distribution of work, with titles of each position and interconnecting lines that show who reports to and communicates with whom.

The purpose of *organizing* is to give each person a separate job and to ensure that these jobs are coordinated in such a way that the organization accomplishes its goals. The **organization chart** (see Figure 4-1) shows the title of each manager's position and, by means of connecting lines, who is accountable to whom, who has authority for each area, and who is expected to communicate with whom. The organization chart also shows the *chain of command* (or "scalar chain") between the top of the organization and the lowest positions in the chart. It shows the path a directive should take in travelling from the president (in Figure 4-1) to employees at the bottom (such as the sales team leaders in Figure 4-1), or from the employees at the bottom up to the president at the top.

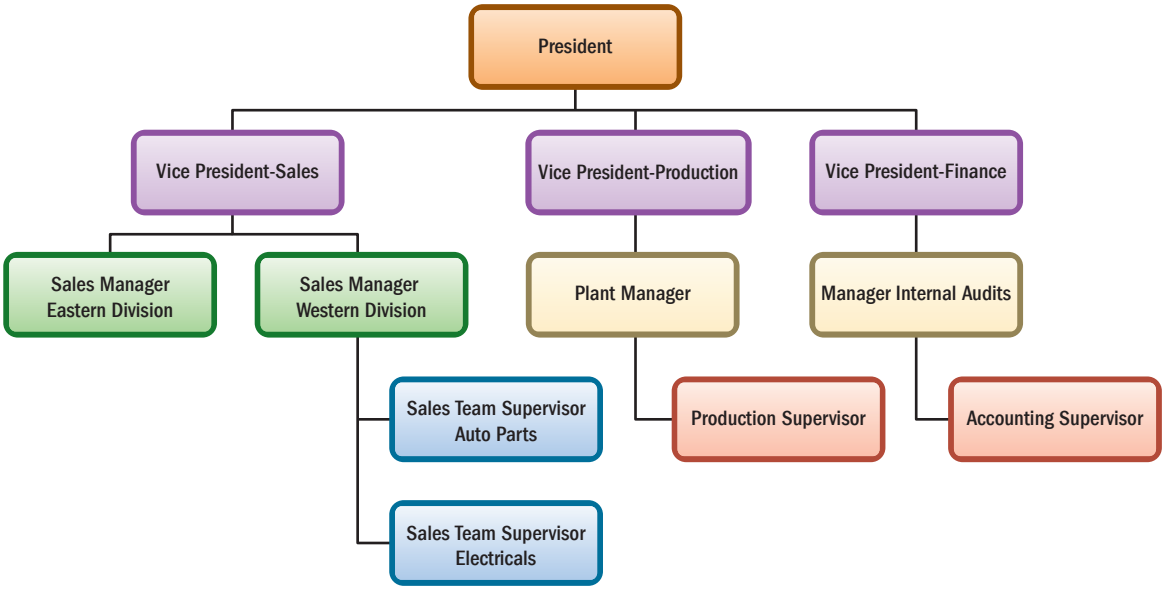

FIGURE 4-1 Organization Chart

DEPARTMENTATION Every organization has to carry out certain activities in order to accomplish its goals. These activities usually include ones such as production, finance, and sales. *Departmentation* is the process through which these activities are grouped logically into distinct areas and assigned to managers: it is the organizationwide division of work. It results in "departments"—logical groupings of activities—which also often go by such names as divisions, branches, units, groups, or sections.

There are numerous ways to group or build departments. For example, many businesses organize departments around *business functions* such as finance, production, and sales. The top-level purple boxes in Figure 4-1 illustrate this. Organizing departments around *products* is another option. For example, Microsoft has separate departments for Gaming, and for Cloud & AI (among others). In Figure 4-1, the two blue boxes represent product departments, in this case for Auto Parts and Electricals. Departmentation by *geography*, location, or area is another popular approach. For example, many federal government agencies are departmentalized by area. Thus the Federal Reserve System is divided into 12 geographical areas, centered in cities like Dallas, New York, and Atlanta. The green boxes in Figure 4-1 represent geographic departmentation. Departmentation by *customer* is yet another alternative. For example Boeing has separate divisions for its commercial airplane customers, and for its defense, space, and security customers.

SPAN OF CONTROL The *span of control* is the number of subordinates reporting directly to a manager. In Figure 4-1, for instance the president's span of control is three, and that of the vice president for sales is two. There has always been some debate about how "wide" a manager's span of control should be (in other words how many subordinates that person can directly supervise). However, as a rule, if your subordinates have less complicated jobs, your span of control may be wider; a manager (such as the president) whose subordinates have more complicated jobs usually tends to have narrower spans of control.

DELEGATION In any case, organizing departments and jobs would be impossible without *delegation*, which we can define as the pushing down of authority from manager to subordinate. This is because the assignment of responsibility for some department or job usually goes hand-in-hand with the delegation of adequate *authority* to get the task done. For example, it would be inappropriate to assign a subordinate the responsibility for designing a new product, and then tell the person they don't have the authority to hire designers. However, while authority can be delegated, *responsibility* cannot. Most managers and management writers would agree that you are still ultimately responsible for seeing to it that the job gets done properly. (Your subordinate does remain *accountable* to you, however.)

What Is Job Analysis?

job analysis
The procedure for determining the duties and skill requirements of a job and the kind of person who should be hired for it.

job descriptions
A list of a job's duties, responsibilities, reporting relationships, working conditions, and supervisory responsibilities—one product of a job analysis.

job specifications
A list of a job's "human requirements," or qualifications, that is, the requisite education, skills, personality, and so on—another product of a job analysis.

The organization chart does not tell you everything about the organization, any more than a roadmap tells you everything about the towns along its routes. For example, organization charts do not show the actual day-to-day duties of each job. Determining what those duties are is the role of *job analysis*. **Job analysis** is the procedure through which you determine the duties of the organization's positions and the characteristics of the people to hire for them.[7] Job analysis produces information for writing **job descriptions** (a list of what duties the job entails) and **job (or "person") specifications** (what qualifications people need to do the job). Virtually every personnel-related action—interviewing applicants, and training and appraising employees, for instance—requires knowing what the job entails and what human traits one needs to do the job well.[8] Just about every employer today—from Airbnb to Zoom—therefore uses job analysis and the job descriptions that stem from it.[9]

The supervisor or human resources specialist normally collects one or more of the following types of information via the job analysis:

- ***Work activities.*** Information about the job's actual work activities, such as cleaning, selling, teaching, or painting. This list may also include how, why, and when the worker performs each activity.

- ***Human behaviors.*** Information about human behaviors the job requires, like sensing, communicating, lifting weights, or walking long distances.
- ***Machines, tools, equipment, and work aids.*** Information regarding tools used, materials processed, knowledge dealt with or applied (such as finance or law), and services rendered (such as counseling or repairing).
- ***Performance standards.*** Information about the job's performance standards (in terms of quantity or quality levels for each job duty, for instance).
- ***Job context.*** Information about things like physical working conditions, work schedule, incentives, and the number of people with whom the employee would normally interact.
- ***Human requirements.*** Information such as knowledge or skills (education, training, work experience) and required personal attributes (aptitudes, personality, interests).

Uses of Job Analysis Information

As Figure 4-2 summarizes, job analysis is important because it supports just about all human resource management activities.

RECRUITMENT AND SELECTION Information about what duties the job entails and what human characteristics are required to perform these duties helps managers decide what sort of people to recruit and hire.

EEO COMPLIANCE Knowing a job's duties is necessary for determining, for example, whether a selection test is a valid predictor of success on the job. Furthermore, to comply with the ADA, employers should know *each job's essential job functions—which requires a job analysis*.

PERFORMANCE APPRAISAL A performance appraisal compares an employee's actual performance of his or her duties with the job's performance standards. Managers use job analysis to learn what these duties and standards are.

COMPENSATION Compensation (such as salary and bonus) usually depends on the job's required skill and education level, safety hazards, degree of responsibility, and so on—all factors you assess through job analysis.

TRAINING The job description lists the job's specific duties and requisite skills—thus pinpointing what training the job requires.

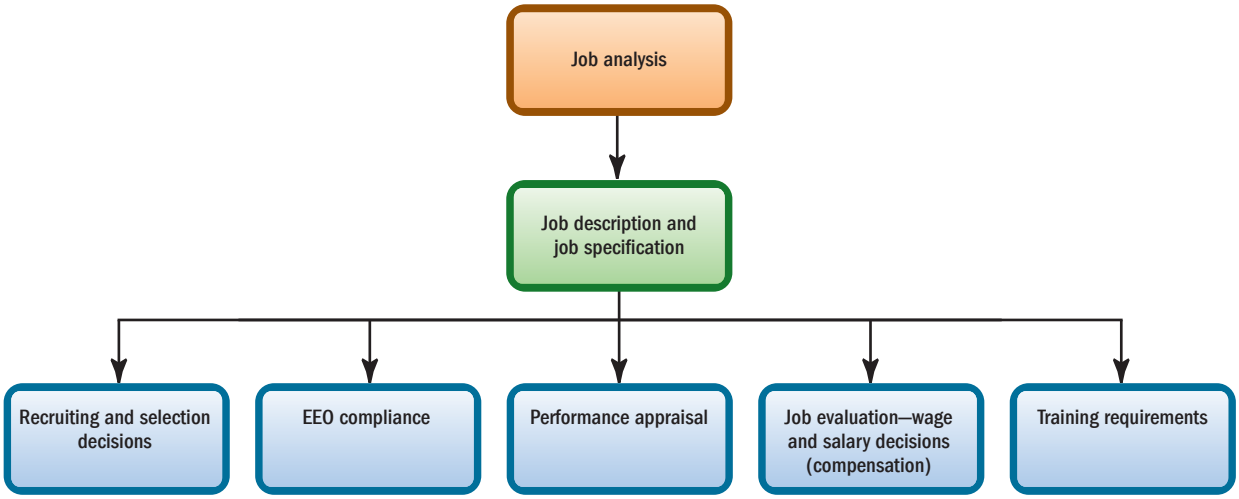

FIGURE 4-2 Uses of Job Analysis Information

Steps in Doing a Job Analysis

STEP 1: IDENTIFY THE USE TO WHICH THE INFORMATION WILL BE PUT There are six steps in doing a job analysis. The first step is to **Identify the use** to which the information will be put, because this will determine how you collect the information. Some data collection techniques—like interviewing the employee—are good for writing job descriptions. Other techniques, like the position analysis questionnaire we describe later, provide numerical ratings for each job; these can be used to compare jobs for compensation purposes.

STEP 2: REVIEW RELEVANT BACKGROUND INFORMATION ABOUT THE JOB, SUCH AS ORGANIZATION CHARTS AND PROCESS CHARTS[10] To do a job analysis, it is useful to understand the job's context. For example, as noted, organization charts show where the job fits in the overall organization. A **process chart** provides a detailed picture of the workflow. Thus, in the process chart in Figure 4-3, the quality control clerk should review components from suppliers, check components going to the plant managers, and give information regarding the components' quality to these managers. Similarly, an existing job description may provide a starting point for revising the job description.

process chart
A workflow chart that shows the flow of inputs to and outputs from a particular job.o

Workflow Analysis Reviewing the organization chart, process chart, and job description helps the manager identify what a job's duties and demands are now. However, it does *not* answer questions like "Does how this job relates to other jobs make sense?" "Should this job even exist?" and, "How (if at all) should we redesign this job?" To answer such questions, the manager may decide to conduct a *workflow analysis*. **Workflow analysis** is a detailed study of the flow of work from job to job in one identifiable work process (such as processing a mortgage application). In turn, this analysis may lead to changing or "reengineering" the job. The following HR as a Profit Center feature illustrates workflow analysis.

workflow analysis
A detailed study of the flow of work from job to job in a work process.

HR AS A PROFIT CENTER

Boosting Productivity Through Work Redesign[11]

The Atlantic American insurance company conducted a workflow analysis to identify inefficiencies in how it processes insurance claims. As the firm's HR director said, "We followed the life of a claim to where it arrived in the mail and where it eventually ended up" in order to find ways to improve the process.[12]

The workflow analysis prompted several performance-boosting redesigns of the insurance claim jobs. The firm reduced from four to one the number of people opening mail, replacing three people with a machine that does it automatically. A new date stamping machine lets staff stamp 20 pages at a time rather than one. A new software program adds bar codes to each claim automatically, rather than manually. The new system lowered costs. ■

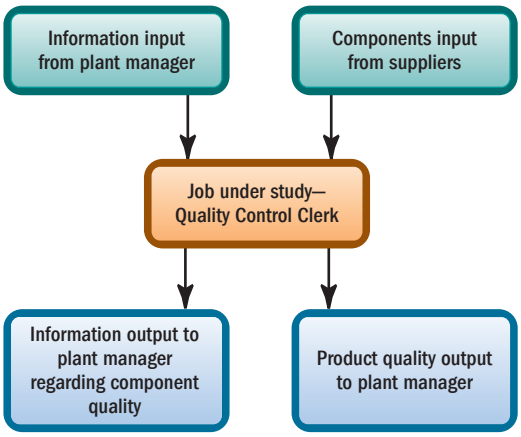

FIGURE 4-3 Process Chart for Analyzing a Job's Workflow

Source: Henderson, Richard I., *Compensation Management in a Knowledge Based World*, 9th Ed., © 2003, p.137. Reprinted and Electronically reproduced by permission of Pearson Education, Inc., Upper Saddle River, New Jersey.

To conduct a workflow analysis, the manager may use a *flow process chart*; this lists in order each step of the process. The manager may convert this step-by-step flow process chart into a *diagrammatic process chart*. This shows, with arrows and circles, each step in the process.

business process reengineering
Redesigning business processes and jobs, usually by combining steps, so that small multifunction process teams using information technology do the jobs formerly done by a sequence of departments.

Business Process Reengineering The workflow analysis at American Atlantic led to a *reengineering* of its claims processing operation. **Business process reengineering** means redesigning business processes and jobs, usually by combining steps so that small multifunction teams, often using information technology, do the jobs formerly done by a sequence of departments. The basic reengineering approach is to:

1. Identify a business process to be redesigned (such as processing an insurance claim)
2. Measure the performance of the existing processes
3. Identify opportunities to improve these processes
4. Redesign and implement a new way of doing the work
5. *Assign ownership of sets of formerly separate tasks to an individual or a team who use new computerized systems to support the new arrangement*

As at Atlantic American, reengineering usually requires redesigning individual jobs. For example, workers doing date stamping must now know how to use the new date-stamping machine.

job enlargement
Assigning workers additional same-level activities.

job rotation
Systematically moving workers from one job to another.

job enrichment
Redesigning jobs in a way that increases the opportunities for the worker to experience feelings of responsibility, achievement, growth, and recognition.

Job Redesign Early economists enthusiastically explained why specialized jobs were more efficient (as in, "practice makes perfect"). However, specialized jobs can backfire, for instance by sapping morale. Experts suggest three ways to redesign specialized jobs to make them more challenging. **Job enlargement** means assigning workers additional same-level activities. Thus, the worker who previously only bolted the seat to the legs might attach the back too. **Job rotation** means systematically moving workers from one job to another.

Psychologist Frederick Herzberg argued that the best way to motivate workers is through what he called job enrichment. **Job enrichment** means redesigning jobs in a way that increases the opportunities for the worker to experience feelings of responsibility, achievement, growth, and recognition—and therefore more motivation. It does this by *empowering* the worker—for instance, by giving the worker the skills and authority to inspect the work, instead of having supervisors do that. Herzberg said empowered employees would do their jobs well because they wanted to, and quality and productivity would rise. That philosophy, in one form or another, is the theoretical basis for the team-based self-managing jobs in many companies today.

STEP 3: SELECT REPRESENTATIVE POSITIONS With a job to analyze, the manager generally selects a sample of positions to focus on. For example, it is usually unnecessary to analyze the jobs of all the firm's 200 assembly workers; instead a sample of 10 jobs will do.

STEP 4: ACTUALLY ANALYZE THE JOB The actual job analysis generally involves greeting each job holder; briefly explaining the job analysis process and the participants' roles in this process; spending about 15 minutes interviewing the employee to get agreement on a summary of the job; identifying the job's broad areas of responsibility, such as "calling on potential clients"; and then identifying specific duties/tasks using one of the methods we describe shortly.[13]

STEP 5: VERIFY THE JOB ANALYSIS INFORMATION WITH THE WORKER PERFORMING THE JOB AND WITH HIS OR HER IMMEDIATE SUPERVISOR This will help confirm that the information (for instance, on the job's duties) is correct and complete and help to gain their acceptance.

STEP 6: DEVELOP A JOB DESCRIPTION AND JOB SPECIFICATION The *job description* lists the duties, activities, and responsibilities of the job, as well as its important features, such as working conditions. The *job specification* summarizes the personal qualities, traits, skills, and background required for getting the job done.

LEARNING OBJECTIVE 4-3

Explain and use at least three methods of collecting job analysis information.

Methods for Collecting Job Analysis Information

There are many ways (interviews or questionnaires, for instance) to collect job analysis information.[14] The basic rule is to use those methods that best fit your purpose. Thus an interview might be best for creating a list of job duties. The more quantitative "position analysis questionnaire" may be best for quantifying each job's value for pay purposes. However before actually analyzing the job, keep several things in mind.

- Make the job analysis a *joint effort by a human resources manager, the worker, and the supervisor*. The human resource manager might observe the worker doing the job and have the supervisor and worker complete job questionnaires. The supervisor and worker then verify the HR manager's list of job duties.
- *Make sure the questions and the process are clear* to the employees.
- This particularly applies to employees who use *English as a second language*. Particularly because job analysis should be a collaborative effort, make very sure that everyone participating (for instance, completing questionnaires) has the ability to participate; if necessary make all questionnaires in additional languages, or have someone who can translate.
- *Use several job analysis methods*. For example, a questionnaire might miss a task the worker performs just occasionally. Therefore it's prudent to follow up the questionnaire with a short interview.

The Interview

Job analysis interviews range from unstructured ("Tell me about your job") to highly structured ones with hundreds of specific items to check off.

Managers may conduct individual interviews with each employee, group interviews with groups of employees who have the same job, and/or supervisor interviews with one or more knowledgeable supervisors. Use group interviews when a large number of employees are performing similar or identical work because this can be a quick and inexpensive way to gather information. As a rule, the workers' immediate supervisor attends the group session; if not, you can interview the supervisor separately.

The interviewee should understand the reason for the interview. There's a tendency for workers to view such interviews, rightly or wrongly, as "efficiency evaluations." If so, interviewees may hesitate to describe their jobs accurately.

It is helpful to spend several minutes prior to collecting job analysis information explaining the process that you will be following.

AnnaStills/Shutterstock

TYPICAL QUESTIONS Typical interview questions include the following:

What is the job being performed?

What exactly are the major duties of your position?

What physical locations do you work in?

What are the education, experience, and skill (including any certification and licensing) requirements?

In what activities do you participate?

What are the job's responsibilities and duties?

What are the basic accountabilities or performance standards that typify your work?

What are your responsibilities? What are the environmental and working conditions involved?

What are the job's physical, emotional, and mental demands?

What are the health and safety conditions?

Are you exposed to any hazards or unusual working conditions?

STRUCTURED INTERVIEWS Many managers use questionnaires to guide the job analysis interview. Figure 4-4 presents one example. It includes questions regarding matters like the general purpose of the job, supervisory responsibilities, job duties, and skills required.

PROS AND CONS The interview's wide use reflects its advantages. It's a simple and quick way to collect information. Skilled interviewers can also unearth important activities that occur occasionally, or informal contacts not on the organization chart. The employee can also vent frustrations that might otherwise go unnoticed.

Distortion of information is the main problem.[15] Job analysis often precedes changing a job's pay rate. Employees therefore often view it as pay-related, and exaggerate some responsibilities while minimizing others. In one study, researchers listed possible job duties either as simple task statements ("record phone messages and other routine information") or as ability statements ("ability to record phone messages and other routine information"). Respondents were more likely to report performing the ability-based versions of the statements. There may be a tendency for people to inflate their job's importance when abilities are involved, so as to impress others.[16]

INTERVIEWING GUIDELINES To get the best information possible:

- Establish rapport with the interviewee. Know the person's name, speak understandably, briefly review the interview's purpose, and explain how the person was chosen for the interview.
- Use a structured guide that lists questions. This ensures you'll identify crucial questions ahead of time and that all interviewers (if more than one) cover all the required questions. (However, also ask, "Was there anything we didn't cover with our questions?")
- Make sure you don't overlook crucial but infrequently performed activities—like a nurse's occasional emergency room duties. Ask the worker to list his or her duties in order of importance and frequency of occurrence.
- After completing the interview, review the information with the worker's supervisor and the worker.

Questionnaires

Having employees fill out questionnaires to describe their job duties and responsibilities is another popular job analysis method.

Some questionnaires are structured checklists. Here each employee gets an inventory of perhaps hundreds of specific duties or tasks (such as "change and splice wire"). Employees must indicate if they perform each task and, if so, how much time is normally spent on each. At the other extreme, the questionnaire may simply ask, "describe the major duties of your job."

FIGURE 4-4 Job Analysis Questionnaire for Developing Job Descriptions

* Copyright Gary Dessler, PhD
Source: Adapted from www.tsu.edu/PDFFiles/Human%20Resources/HR%20Forms/JAQ%20FORM_rev%20100809%20a.pdf; www.delawarepersonnel.com/class/forms/jaq/jaq.shtml; www.uh.edu/human-resources/forms/JAQ.doc; www.tnstate.edu/hr/documents/.../Job%20Analysis%20Questionnaire.doc (all accessed July 24, 2013).

JOB ANALYSIS QUESTIONNAIRE*

PURPOSE AND INSTRUCTIONS

Because no one knows the job as well as the person doing it, we are asking you to complete this form. The purpose is to obtain current information on your job based on a review of job duties and responsibilities. We are not asking you about your job performance; only what your job requires you to do.

EMPLOYEE DATA (PLEASE PRINT):

Your Name: _____ Today's date _____

Employee ID: _____

Location/Department: _____

Your Job Title: _____ Job Code: _____

How long have you been in your current position: _____

Work Telephone Number: _____

Supervisor's Name: _____ Supervisor's Title: _____

SUMMARY OF DUTIES/RESPONSIBILITIES

Give a brief description of the main function/purpose of your job. This statement should be a brief summary of the responsibilities listed in the following Job Duties section.

_____

_____

_____

Listing of Job Duties

What do you do on your job? Please list your job's specific duties/responsibilities in the space below. In doing so:

Please list the most important duties/responsibilities first. Write a separate statement for each duty/responsibility.

At the end of each statement please indicate the approximate percent of your workday (25%, 7%, etc.) you spend on that duty.

Please place an asterisk (*) next to the duties that you consider to be absolutely essential to this job.

_____

_____

_____

_____

_____

(Add additional duties as necessary)

Are there duties you are now performing that are not now in your job description? If so please list them on back of this page.

(Continued)

FIGURE 4-4 ***Continued***

Minimum Level of Education (or Equivalent Experience) This Job Requires

What is the minimum level of education necessary to perform your job? Select only one please:

1. Elementary education.
2. Some high school.
3. A high school diploma or equivalent (G.E.D.).
4. A formal vocational training program (approximately one year), an apprenticeship, or some formal college education.
5. An associate's degree (AA, AS).
6. A bachelor's degree (BA, BS).
7. A master's degree (MA, MS, MBA, MPA).
8. A doctorate degree (Ph.D., MD, JD, EED).
9. Are you required to be licensed or certified to perform your work?

[ ] Yes [ ] No List type _____

Required Training on Job

What is the level of on-the-job or classroom training someone requires to do your job? Please select one choice below:

1. No additional training required.
2. A day or two.
3. A week.
4. A month.
5. Several months.
6. One year.
7. Two years or more.

SUPERVISORY RESPONSIBILITIES

Do you supervise others as part of your job? If so please briefly describe the nature of your supervisory responsibilities.

PHYSICAL JOB DEMANDS

Please briefly describe this job's main physical demands. For example, does it involve Sitting? Walking? Standing? Lifting? Detailed repetitive motions? Climbing? Etc.

Working Conditions: Environmental and Safety Job Demands

Please list this job's working conditions, such as: air-conditioned office work; outdoor or indoor extreme heat or cold; wet; noise; job hazards; working in elevated conditions; etc.

EMPLOYEE COMMENTS

Is there any other information that would be important in understanding your job? If so, please give us your comments below.

SUPERVISOR'S REVIEW

Based on your understanding of the job as it currently exists, please review the employee's responses and provide your own comments in the space below. **Please do not change the employee's responses.**

In practice, the questionnaire often falls between these two "structured" "unstructured" extremes. As illustrated in Figure 4-4, a typical job analysis questionnaire might include several open-ended questions (such as "Give a brief description of the main function/purpose of your job.") as well as structured questions (concerning, for instance, education required).

Questionnaires have pros and cons. This is a quick and efficient way to obtain information from a large number of employees; it's less costly than interviewing dozens of workers, for instance. However, developing and testing it (perhaps by making sure the workers understand the questions) can be time-consuming. And as with interviews, employees may distort their answers.

Observation

Direct observation is especially useful when jobs consist of observable physical activities—assembly-line worker and accounting clerk are examples. However, it's usually not appropriate when the job entails a lot of mental activity (lawyer, design engineer). Nor is it useful if the employee only occasionally engages in important activities, such as a nurse who handles emergencies. *Reactivity*—workers changing what they normally do because you are watching—is another problem.

Managers often use direct observation and interviewing together. One approach is to observe the worker on the job during a complete work cycle. (The *cycle* is the time it takes to complete the job; it could be a minute for an assembly-line worker or an hour, a day, or longer for complex jobs.) Here you take notes of all the job activities. Then, ask the person to clarify open points and to explain what other activities the person performs that you didn't observe (use someone to translate, if necessary).

Participant Diary/Logs

diary/log
Daily listings made by workers of every activity in which they engage along with the time each activity takes.

Another method is to ask workers to keep a **diary/log**; here for every activity engaged in, the employee records the activity (along with the time) in a log.

Some firms give employees pocket dictating machines and pagers. Then randomly during the day, they page the workers, who dictate what they are doing at that time.

Quantitative Job Analysis Techniques

Qualitative methods like interviews and questionnaires are not always suitable. For example, if your aim is to compare jobs for pay purposes, a mere listing of duties may not suffice. You may need to say that, in effect, "Job A is twice as challenging as Job B, and so is worth twice the pay." To do this, it helps to have quantitative ratings for each job. The position analysis questionnaire and the Department of Labor approach are quantitative methods for doing this.

position analysis questionnaire (PAQ)
A questionnaire used to collect quantifiable data concerning the duties and responsibilities of various jobs.

POSITION ANALYSIS QUESTIONNAIRE The **position analysis questionnaire (PAQ)** is a popular quantitative job analysis tool, consisting of a questionnaire containing 194 items.[17] The 194 items (such as "written materials") each represent a basic element that may play a role in the job.[18] The 194 items each belong to one of five PAQ basic activities: (1) Having Decision-Making/Communication/Social Responsibilities, (2) Performing Skilled Activities, (3) Being Physically Active, (4) Operating Vehicles/Equipment, and (5) Processing Information. The final PAQ "score" reflects the job's rating on each of these five activities. To get those scores, the job analyst decides if each of the 194 items (such as the one on using "written materials") applies to the job and, if so, to what extent. For example, within the "Processing Information" activity section, an item on the extent to which the job requires using "written materials" such as books and reports might get a rating of 4. Because the PAQ scale ranges from 1 to 5, a 4 suggests that written materials do play a significant role in this job. The analyst can use an online version of the PAQ (see www.paq.com) to analyze each job.

One of the PAQ's strengths is in assigning jobs to job classes for pay purposes. With numerical ratings for each job's decision-making, skilled activity, physical activity, vehicle/equipment operation, and information-processing characteristics, you can quantitatively compare jobs relative to one another,[19] and then use that to classify jobs for pay purposes.[20]

DEPARTMENT OF LABOR (DOL) PROCEDURE Experts at the U.S. Department of Labor did much of the early work developing job analysis.[21] They used their results to compile what was for many years the bible of job descriptions, the *Dictionary of Occupational Titles*. This mammoth book contained detailed information on virtually every job in America. Internet-based tools have largely replaced the *Dictionary*.[22] However, the U.S. Department of Labor job analysis procedure remains a good example of how to quantitatively rate, classify, and compare jobs. As Table 4-1 shows, the DOL method uses a set of standard activities called *worker functions* to describe what a worker must do with respect to *data, people*, and *things*. With respect to data, for instance, the functions include synthesizing and copying. For people, specific functions include mentoring and supervising. For things, basic functions include manipulating and handling.

Each worker function has an importance rating. Thus, "coordinating" is 1, whereas "copying" is 5. If you were analyzing the job of a receptionist/clerk, for example, you might label the job 5, 6, 7 to represent copying data, speaking/signaling people, and handling things. You might code a psychiatric aide in a hospital 1, 7, 5 in relation to data, people, and things. In practice, you would score each function that the worker performed as part of his or her job in terms of data, people, and things. Then you would use the highest combination (say 4, 6, 5) to rate the overall job, because this is the highest level that you would expect a successful job incumbent to attain. If you were selecting a worker for that 4, 6, 5 job, you'd expect him or her to be able to at least compute (4), speak/signal (6), and tend (5). If you were comparing jobs for pay purposes, a 4, 6, 5 job should rank higher (see Table 4-1) than a 6, 8, 6 job. The manager can then present a summary of the job along with its 3-digit rating on a form such as in Figure 4-5.[23]

TABLE 4-1 Basic Department of Labor Worker Functions

	Data	People	Things
Basic Activities	0 Synthesizing	0 Mentoring	0 Setting up
	1 Coordinating	1 Negotiating	1 Precision working
	2 Analyzing	2 Instructing	2 Operating/controlling
	3 Compiling	3 Supervising	3 Driving/operating
	4 Computing	4 Diverting	4 Manipulating
	5 Copying	5 Persuading	5 Tending
	6 Comparing	6 Speaking/signaling	6 Feeding/offbearing
		7 Serving	7 Handling
		8 Taking instructions/helping	

Note: Determine employee's job "score" on data, people, and things by observing his or her job and determining, for each of the three data, people, things categories, which of the basic functions illustrates the person's job. "0" is high; "6," "8," and "7" are lows in each column.

Online Job Analysis Methods[24]

Employers also use online job analysis methods. Here the human resource department generally distributes standardized job analysis questionnaires to geographically disbursed employees online, with instructions to complete the forms and return them by a particular date. The job analyst may then convene, online, people very familiar with the job, to discuss and finalize the knowledge, skills, abilities, and other characteristics doing the job requires.[25]

Without a job analyst actually sitting there with the employee or supervisor, there's a chance they won't cover important points or that misunderstandings arise. Therefore, all online questionnaire instructions should be clear, and test the process first.

The U.S. Navy used online job analysis.[26] To keep ambiguities to a minimum, it had the employees complete structured online job analysis forms step by step and duty by duty, as follows:

- First, the online form lists *a set of work activities* (such as "Getting Information," "Monitor Processes," and "Judging the Qualities of Objects") from the Department of Labor O*NET work activities list[27] (we'll discuss O*NET shortly).

- Next, the online form directs employees to *select those work activities* such as "Getting Information" that are important to their job.
- Then, the form asks them to *list actual duties* of their jobs that fit each of those selected work activities. For example, suppose an employee chose "Getting Information" as an important work activity. Now the employee would list next to "Getting Information" actual specific job duties, such as "bring new orders from our vendors to the boss's attention."

Again, the main caveat with online job analysis is to strip the process of ambiguities. This would include translating any materials as necessary. The Navy's online method proved effective.[28]

FIGURE 4-5 Sample Report Based on Department of Labor Job Analysis Technique

Job Analysis Schedule

1. Established Job Title: DOUGH MIXER
2. Ind. Assign: (bake prod.)
3. SIC Code(s) and Title(s): 2051 Bread and other bakery products

4. JOB SUMMARY:

Operates mixing machine to mix ingredients for straight and sponge (yeast) doughs according to established formulas, directs other workers in fermentation of dough, and curls dough into pieces with hand cutter.

5. WORK PERFORMED RATINGS:

	D	P	(T)
Worker Functions	Data	People	Things
	5	6	2

Work Field: Cooking, Food Preparing

6. WORKER TRAITS RATING (to be filled in by analyst):

Training time required
Aptitudes
Temperaments
Interests
Physical demands
Environment conditions

LEARNING OBJECTIVE 4-4

Explain how you would write a job description, and what sources you would use.

Writing Job Descriptions

The most important product of job analysis is the job description. A job description is a written statement of what the worker actually does, the person who does it, and what the job's working conditions are. You use this information to write a job specification; this lists the knowledge, abilities, and skills required to perform the job satisfactorily.[29]

HR in Action at the Hotel Paris In reviewing the Hotel Paris's employment systems, the HR manager was concerned that virtually all the company's job descriptions were out of date, and that many jobs had no descriptions at all. She knew that without accurate job descriptions, all her improvement efforts would be in vain. To see how this was handled, see the case at the end of this chapter.

There is no standard format for writing a job description. However, most descriptions contain sections that cover:

1. Job identification
2. Job summary
3. Responsibilities and duties
4. Authority of incumbent
5. Standards of performance
6. Working conditions
7. *Job specification*

Figures 4-6 and 4-7 present two sample forms of job descriptions.

Job Identification

As in Figure 4-6, the job identification section (on top) contains several types of information.[30] The *job title* specifies the name of the job, such as *inventory control clerk*. The Fair Labor Standards Act (FLSA) status section identifies the job as exempt or nonexempt. (Under the FLSA, certain positions, primarily administrative and professional, are exempt from the act's overtime and minimum wage provisions.) *Date* is the date the job description was approved.

There may also be a space to indicate who approved the description and perhaps one showing the job's location in terms of facility/division and department. This section might also include the supervisor's title and information regarding salary and/or pay scale. There might also be space for the pay grade/level of the job, if there is one. For example, a firm may classify programmers as programmer II, programmer III, and so on.

WHAT'S IN A NAME (OR IN A JOB TITLE)? Some job titles are quite creative. For example, Pinterest calls its designers Pixel Pushers, and its interns Pinterns.[31] One study concluded that employees who participate in retitling their jobs and who have more descriptive job titles tend to be more satisfied and to feel more recognized.[32]

The U.S. Navy discovered that the hard way. From the Navy's earliest days, sailors traditionally had descriptive job titles such as "electrician's mate first class." In part to strip its job titles of gender-specific labels containing "man" or "men," the Navy decided to group all sailors with the same pay rate together, with the same (bland) job title such as "petty officer first class."[33] An uproar ensued. A petition with over 100,000 signatures got to the White House. The Navy returned to its traditional job titles.

Job Summary

The job summary should summarize the essence of the job, and should include only its major functions or activities. Thus (in Figure 4-6), the telesales rep " . . . is responsible for selling college textbooks . . . ." For the job of mailroom supervisor, "the mailroom supervisor receives, sorts, and delivers all incoming mail properly, and handles all outgoing mail including the accurate and timely posting of such mail."[34]

Some experts argue that "one item frequently found that should never be included in a job description is a 'cop-out clause' like 'other duties, as assigned'"[35] since this leaves open the nature of the job. Finally, state in the summary that the employee is expected to carry out his or her duties efficiently, attentively, and conscientiously.

Relationships

There may be a "relationships" statement (not in Figure 4-6) that shows the jobholder's relationships with others inside and outside the organization. The following presents some illustrative relationships for a human resource manager.[36]

Reports to: Vice president of employee relations.

Supervises: Human resource clerk, test administrator, labor relations director, and one secretary.

Works with: All department managers and executive management.

Outside the company: Employment agencies, executive recruiting firms, union representatives, state and federal employment offices, and various vendors.[37]

Responsibilities and Duties

This is the heart of the job description. It should present a list of the job's responsibilities and duties. As in Figure 4-6, list each of the job's major duties separately, and describe it in a few sentences. In the figure, for instance, the job's duties include "achieve quantitative sales goal . . . " and "determine sales priorities . . . ." Typical duties for other jobs might include making accurate postings to accounts payable, maintaining favorable purchase price variances, and repairing production-line

JOB TITLE: Telesales Respresentative	**JOB CODE:** 100001
RECOMMENDED SALARY GRADE: 6	**EXEMPT/NONEXEMPT STATUS:** Nonexempt
JOB FAMILY: Sales	**EEOC:** Sales Workers
DIVISION: Higher Education	**REPORTS TO:** District Sales Manager
DEPARTMENT: In-House Sales	**LOCATION:** Boston
	DATE: April 10, 2022

SUMMARY (Write a brief summary of job.)

The person in this position is responsible for selling college textbooks, software, and multimedia products to professors, via incoming and outgoing telephone calls, and to carry out selling strategies to meet sales goals in assigned territories of smaller colleges and universities. In addition, the individual in this position will be responsible for generating a designated amount of editorial leads and communicating to the publishing groups product feedback and market trends observed in the assigned territory.

SCOPE AND IMPACT OF JOB

Dollar responsibilities (budget and/or revenue)

The person in this position is responsible for generating approximately $2 million in revenue, for meeting operating expense budget of approximately $4000, and a sampling budget of approximately 10,000 units.

Supervisory responsibilities (direct and indirect)

None

Other

REQUIRED KNOWLEDGE AND EXPERIENCE (Knowledge and experience necessary to do job)

Related work experience

Prior sales or publishing experience preferred. One year of company experience in a customer service or marketing function with broad knowledge of company products and services is desirable.

Formal education or equivalent

Bachelor's degree with strong academic performance or work equivalent experience.

Skills

Must have strong organizational and persuasive skills. Must have excellent verbal and written communications skills and must be PC proficient.

Other

Limited travel required (approx 5%)

(*Continued*)

FIGURE 4-6 Sample Job Description, Pearson Education

Source: Reprinted and electronically reproduced by permission of Pearson Education, Inc., Upper Saddle River, New Jersey.

PRIMARY RESPONSIBILITIES (List in order of importance and list amount of time spent on task.)

Driving Sales (60%)

- Achieve quantitative sales goal for assigned territory of smaller colleges and universities.
- Determine sales priorities and strategies for territory and develop a plan for implementing those strategies.
- Conduct 15–20 professor interviews per day during the academic sales year that accomplishes those priorities.
- Conduct product presentations (including texts, software, and Web site); effectively articulate author's central vision of key titles; conduct sales interviews using the PSS model; conduct walk-through of books and technology.
- Employ telephone selling techniques and strategies.
- Sample products to appropriate faculty, making strategic use of assigned sampling budgets.
- Close class test adoptions for first edition products.
- Negotiate custom publishing and special packaging agreements within company guidelines.
- Initiate and conduct in-person faculty presentations and selling trips as appropriate to maximize sales with the strategic use of travel budget. Also use internal resources to support the territory sales goals.
- Plan and execute in-territory special selling events and book-fairs.
- Develop and implement in-territory promotional campaigns and targeted email campaigns.

Publishing (editorial/marketing) 25%

- Report, track, and sign editorial projects.
- Gather and communicate significant market feedback and information to publishing groups.

Territory Management 15%

- Track and report all pending and closed business in assigned database.
- Maintain records of customer sales interviews and adoption situations in assigned database.
- Manage operating budget strategically.
- Submit territory itineraries, sales plans, and sales forecasts as assigned.
- Provide superior customer service and maintain professional bookstore relations in assigned territory.

Decision-Making Responsibilities for This Position:

Determine the strategic use of assigned sampling budget to most effectively generate sales revenue to exceed sales goals.
Determine the priority of customer and account contacts to achieve maximum sales potential.
Determine where in-person presentations and special selling events would be most effective to generate the most sales.

Submitted By: Jim Smith, District Sales Manager	Date: April 10, 2022
Approval:	Date:
Human Resources:	Date:
Corporate Compensation:	Date:

FIGURE 4-6 ***Continued***

tools and equipment. This section may also define the jobholder's authority limits. For example, the jobholder might have authority to approve purchase requests up to $5,000, grant time off or leaves of absence, discipline department personnel, recommend salary increases, and interview and hire new employees.

Usually, the manager's basic question here is, "How do I determine what the job's duties are and should be?" The answer first is, from the *job analysis*; this should reveal what the employees on each job are doing now.

Standard Occupational Classification (SOC)
Classifies all workers into one of 23 major groups of jobs that are subdivided into minor groups of jobs and detailed occupations.

Second, you can review various sources of standardized job description information. For example, the U.S. government's **Standard Occupational Classification (SOC)** (www.bls.gov/soc/socguide.htm) classifies all workers into one of 23 major

FIGURE 4-7 Marketing Manager Description from Standard Occupational Classification

Source: U.S. Department of Labor, Bureau of Labor Statistics.

groups of jobs, such as "Management Occupations" and "Healthcare Occupations." These in turn contain 96 minor groups of jobs, which in turn include 821 detailed occupations, such as the marketing manager description in Figure 4-7. The employer can use standard descriptions like these to identify a job's duties and responsibilities, such as "Determine the demand for products."

The employer may also access other popular sources of job description information, such as www.jobdescription.com. Another simple solution is just to *Google* the job description you want, by seeing online what others are doing. Someone writing job descriptions for *marketing manager* would also find relevant online descriptions using methods like these:

- Go to http://hiring.monster.com. Then click Resource Center, then Recruiting and Hiring Advice, then Job Descriptions. Then find the Marketing and Sales Manager Sample Job Description.[38]
- Go to www.careerplanner.com. Then click Job Descriptions, then scroll down to the job description you're interested in.[39]
- O*NET online is another option for finding job duties. We present an example in the HR Tools for Line Managers and Small Businesses feature at the end of this section.

Writing clear job duties is an art. For a teacher, for example, one duty might be:[40]

Incorrect: Ensures that students learn fifth-grade English with the aim of passing the required common exam.

Comment: What the teacher does is ambiguous, and the expected process and results of the teacher's actions aren't clear.

Correct: Studies past common English exams to understand what they typically involve; prepares yearly, weekly, and daily lesson plans; presents each day's lesson clearly with follow-up questions to ensure learning; administers weekly tests to confirm learning; and counsels students one-on-one in class lessons as necessary.

Standards of Performance and Working Conditions

A "standards of performance" section on the job description lists the standards the company expects the employee to achieve for each of the job description's main duties and responsibilities. One way to set standards is to finish the statement, "I will be completely satisfied with your work when . . . ." This sentence, completed for each duty, should produce a usable set of performance standards. For example:

Duty: Accurately Posting Accounts Payable

1. Post all invoices received within the same working day.
2. Route all invoices to the proper department managers for approval no later than the day following receipt.
3. *Commit an average of no more than three posting errors per month.*

Finally, the job description may list the job's working conditions, such as noise level or hazardous conditions.

Trends Shaping HR: Digital and Social Media

Thanks to social media such as LinkedIn, line managers today can do things for which they formerly required HR managers. For example (to paraphrase what someone posted on LinkedIn): "*I hope some of you IT recruiters out there can help me to better understand what I need to put into the job descriptions that I'm writing for the O*NET developers and development managers I'm recruiting for*". The first of many replies listed 12 tasks including: (1) Do technical skills match the desired job?, (2) What technical problems were solved by the job seeker?, and (3) Did job seeker know about Cloud Deployment?[41]

Know Your Employment Law: Writing Job Descriptions that Comply with the ADA

The job duties list is crucial to employers' efforts to comply with the Americans with Disabilities Act (ADA). Under the ADA, the individual must have the requisite skills, educational background, and experience to perform the job's essential functions. The EEOC says, "Essential functions are the basic job duties that an employee must be able to perform, with or without reasonable accommodation."[42] Is the duty essential? Things to consider include

- Whether the position exists to perform that function
- The number of other employees available to perform the function
- The degree of expertise or skill required to perform the function
- Whether employees in the position are actually required to perform the function[43]
- What the degree of expertise or skill required to perform the function is[44]

As an example, answering calls and directing visitors to the proper offices might be essential functions for a receptionist. The EEOC says it will consider both the employer's judgment about which functions are essential, and a written job description prepared before advertising or interviewing for a job as evidence of essential functions. Other evidence includes the actual work experience of present or past employees in the job, the time spent performing a function, and the consequences of not requiring that function.

If the individual can't perform the job as currently structured, the employer is required to make a "reasonable accommodation," unless doing so would present an "undue hardship." The EEOC says reasonable accommodation may include[44]

- acquiring or modifying equipment or devices,
- part-time or modified work schedules,
- adjusting or modifying examinations, training materials, or policies,
- providing readers and interpreters, and
- making the workplace readily accessible to and usable by people with disabilities.

Vendors supply software and services to facilitate conducting ADA-compliant job analyses.[45]

HR Tools for Line Managers and Small Businesses: How to Write Job Descriptions Using O*NET

Without their own job analysts or even HR managers, many small business owners face two hurdles when doing job analyses. First, most need a more streamlined approach than those provided by questionnaires like Figure 4-4. Second is the concern that, in writing their job descriptions, they'll overlook duties that should be assigned. What they need is an encyclopedia listing all the possible jobs they might encounter, including a list of the duties normally assigned to these jobs.

The small business owner has at least three options. The *Standard Occupational Classification*, mentioned earlier, provides detailed descriptions of thousands of jobs and their human requirements. Websites like www.jobdescription.com provide customizable descriptions by title and industry. And the Department of Labor's O*NET is a third alternative. We'll focus here on how to write a job description using O*NET (http://online.onetcenter.org).[46] It is free to use.

O*NET The U.S. Department of Labor's online occupational information network, called O*NET, enables anyone to see the most important characteristics of various occupations, as well as the experience, education, and knowledge required to do each

job well. Both the Standard Occupational Classification and O*NET list the specific duties associated with numerous occupations. O*NET also lists skills, including *basic skills* such as reading and writing, *process skills* such as critical thinking, and *transferable skills* such as persuasion and negotiation.[47] An O*NET job listing also includes information on worker requirements (required knowledge, for instance), occupation requirements (such as compiling, coding, and categorizing data, for instance), and experience requirements (including education and job training). Employers and career planners also use O*NET to check the job's labor market characteristics, such as employment projections and earnings data.[48]

Writing Job Descriptions Using O*NET entails the following steps.

STEP 1. ***Review Your Plan***. Ideally, the jobs you need should flow from your departmental or company plans. Do you plan to enter or exit businesses? What do you expect your sales to be in the next few years? What departments will have to be expanded or reduced? What kinds of new positions will you need?

STEP 2. ***Develop an Organization Chart***. Start with the organization as it is now. Then produce a chart showing how you want it to look in a year or two. Microsoft Office and others offer free charting tools.[49]

STEP 3. ***Use a Job Analysis Questionnaire***. Next, gather information about each of your current job's duties. (You can use job analysis questionnaires, such as those shown in Figures 4-4 and 4-8.)

STEP 4. ***Obtain Job Duties from O*NET***. The list of job duties you uncovered through the job analysis in step 3 may or may not be complete. We'll therefore use O*NET to compile a more complete list. (Refer to the A, B, and C examples pictured.)

A (above)

B (above)

Summary Report for:
41-2031.00 - Retail Salespersons

Sell merchandise, such as furniture, motor vehicles, appliances, or apparel in a retail establishment.

Tasks

- Greet customers and ascertain what each customer wants or needs.
- Open and close cash registers, performing tasks such as counting money, separating charge slips, coupons, and vouchers, balancing cash drawers, and making deposits.
- Maintain knowledge of current sales and promotions, policies regarding payment and exchanges, and security practices.
- Compute sales prices, total purchases and receive and process cash or credit payment.
- Maintain records related to sales.
- Watch for and recognize security risks and thefts, and know how to prevent or handle these situations.
- Recommend, select, and help locate or obtain merchandise based on customer needs and desires.
- Answer questions regarding the store and its merchandise.
- Describe merchandise and explain use, operation, and care of merchandise to customers.
- Ticket, arrange and display merchandise to promote sales.

Knowledge

Customer and Personal Service — Knowledge of principles and processes for providing customer and personal services. This includes customer needs assessment, meeting quality standards for services, and evaluation of customer satisfaction.

Sales and Marketing — Knowledge of principles and methods for showing, promoting, and selling products or services. This includes marketing strategy and tactics, product demonstration, sales techniques, and sales control systems.

Administration and Management — Knowledge of business and management principles involved in strategic planning, resource allocation, human resources modeling, leadership technique, production methods, and coordination of people and resources.

Education and Training — Knowledge of principles and methods for curriculum and training design, teaching and instruction for individuals and groups, and the measurement of training effects.

Mathematics — Knowledge of arithmetic, algebra, geometry, calculus, statistics, and their applications.

English Language — Knowledge of the structure and content of the English language including the meaning and spelling of words, rules of composition, and grammar.

C (above)

Start by going to www.onetonline.org/[50] (A). Here, click on *Find Occupations*. Assume you want to create job descriptions for a retail salesperson. Click *Retail trade* in the Industry Keyword drop-down box. This brings you to the Occupations matching "retail sales" page (B).[51]

Clicking on the *Retail Salespersons* summary produces the job summary and specific occupational duties for retail salespersons (C).[52] For a small store, you might want to combine the duties of the "retail salesperson" with those of "first-line supervisors/managers of retail sales workers."

STEP 5. ***List the Job's Human Requirements from O*NET***. Next, return to the summary for *Retail Salespersons* (C). Here, click, for example, Knowledge, Skills, and Abilities. Use this information to help develop a job specification for your job. Use this information for recruiting, selecting, and training your employees.

STEP 6. ***Finalize the Job Description***. Finally, perhaps using Figure 4-8 as a guide, write a job summary for the job. Then combine that with the information you just got on the job's duties in steps 4 and 5 to create a complete listing of the tasks, duties, and human requirements of each of the jobs you will need to fill.

THE NEW NORMAL

When Jobs Change, Change the Job Descriptions

Like millions of employers across America, it didn't take long for Ford Motor to tell its office workers to "collect and clear" their desks and office spaces once the pandemic hit several years ago. At the time, neither Ford nor anyone else could know how long remote work would last. But, even early on, Ford assumed most of its office workers would be working remotely at least a few days a week, for some time.[53] Furthermore, it's not just formerly office-based workers who are working remotely: millions of on-demand gig workers are coding, writing articles, and working remotely too.[54]

One consequence of remote work is that it requires a review and revision of most employers' job descriptions. The job analyses conducted before the pandemic may (or may not) still be applicable. For example, information about the job's actual work activities, such as selling or teaching may need expanding, reducing, or changing. The tools, equipment, and work aids may change. New performance standards (for instance in terms of daily client contact quotas) may need to be added, as may new human behaviors such as supervising one's own work. And the job context, in terms of things like physical working conditions and work schedule will almost surely change. In any case, remote work usually requires revising job analyses results and job descriptions.[55] ■

FIGURE 4-8 Simple Job Description Questionnaire

Source: Copyright Gary Dessler, PhD.

Background Data for Job Description

Job Title _____ Department _____

Job Number _____ Written by _____

Today's Date _____ Applicable DOT Codes _____

I. Applicable DOT Definition(s):

II. Job Summary:
(List the more important or regularly performed tasks.)

III. Reports To: _____

IV. Supervises: _____

V. Job Duties: _____
(Briefly describe, for each duty, what employee does and, if possible, how employee does it. Show in parentheses at end of each duty the approximate percentage of time devoted to duty.)

A. Daily Duties:

B. Periodic Duties:
(Indicate whether weekly, monthly, quarterly, etc.)

C. Duties Performed at Irregular Intervals:

LEARNING OBJECTIVE 4-5

Explain how to write a job specification.

Writing Job Specifications

The job specification takes the job description and answers the question, "What are the qualifications for this job, in terms of things like education, experience, required skills (like coding), and personality traits (such as patient and detail-oriented)"?[56] It lists the human traits and experience required to do the job effectively. And, it shows for what qualities to test that person. The job specification may be a section of the job description, or a separate document. Often—as in Figure 4-6 ("Required Knowledge and Experience")—it is part of the job description.[57]

Specifications for Trained versus Untrained Personnel

Writing job specifications for trained and experienced employees is relatively straightforward. Here job specifications tend to focus on factors such as length of previous service, quality of relevant training, and previous job performance.

The problems are more complex when you're filling jobs with untrained people (with the intention of training them on the job). Here you must specify qualities such as physical traits, personality, interests, or sensory skills that imply some potential for performing

Filling jobs with untrained employees requires identifying the personal traits that predict performance.

Rawpixels stock/Shutterstock

the job or for trainability. Thus, for a job that requires detailed manipulation, you might want someone who scores high on a test of finger dexterity. Employers identify the job's human requirements either through a subjective, judgmental approach or through statistical analysis (or both).

Specifications Based on Judgment

Most job specifications simply reflect the educated guesses of people like supervisors and human resource managers. The basic procedure here is to ask, "What does it take in terms of education, intelligence, training, and the like to do this job well?"

How does one make such "educated guesses"? You could simply review the job's duties, and deduce from those what human traits and skills the job requires. You can also choose human traits and skills from those listed in Web-based job descriptions like those at www.jobdescription.com. (For example, one job description there lists "Generates creative solutions" and "Manages difficult or emotional customer situations.") O*NET online is another option. Job listings there include lists of required education, experience, and skills.

In any case, use common sense. Don't ignore behaviors that may apply to almost any job but that might not normally surface through a job analysis. Industriousness is an example. Who wants an employee who doesn't work hard? One researcher collected information from 18,000 employees in 42 different hourly entry-level jobs.[58] Generic work behaviors that he found to be important to all jobs included thoroughness, attendance, unruliness [lack of], and scheduling flexibility (for instance, offers to stay late when store is busy). Another study, of over 7,000 executives, found that crucial top-leader behaviors included: takes initiative, practices self-development, displays high integrity, drives for results, and develops others.[59] Using common sense also means considering the impact of the job specifications on the candidate pool's diversity, as the Diversity Counts box explains.

DIVERSITY COUNTS

Getting the Job Specification Right

The job specification itemizes the job's human requirements, for instance in terms of required training and skill levels. It therefore serves as a sort of road map for the kinds of people the employer would consider for employment. The problem is that the job specification—and especially the human needs you identify, and the words used to describe them—can unintentionally discourage some people from applying.[60]

The "human requirements" the employer chooses are one potential source of problems. For example, a museum association traditionally sought job candidates who had credentials (such as degrees in the arts or previous museum employment) for its museum-related jobs.[61]

It turned out, however, that with the right skills a more diverse group of people, without the degrees or museum work experience, were eminently qualified too.

The words used are equally important. For example this association discovered that substituting words such as "collaborate" for phrases such as "drive results" helped it attract a more gender-inclusive candidate pool. Employers use online tools such as that at https://textio.com/ to identify inadvertently discriminatory words and phrases. ■

HR and the Gig Economy: Do Gig Workers Need Job Specifications?

Hiring nonemployee gig workers doesn't mean the employer doesn't need job descriptions and job specifications. The employer must still ensure that the workers at least know what their jobs are and fit certain minimum requirements.

Therefore both Lyft and Uber list "driver requirements," which are essentially job specifications.[62] Driver requirements vary somewhat by location, but both Uber and Lyft require drivers to be at least 21, have a Social Security number and in-state driver's license (at least one year old), have in-state insurance, and undergo both DMV and national and county-wide background checks. For Uber the background check also requires no recent DUI or drug-related offenses, or incidents of driving without insurance or license, or fatal accidents, or history of reckless driving, and no criminal history. And your car must pass muster. For example, it must be a four-door sedan, seat four or more (excluding driver), be 15 years old or newer, have in-state plates and be currently registered, and pass Uber's vehicle inspection.[63]

Job Specifications Based on Statistical Analysis

Basing job specifications on statistical analysis (rather than only judgment) is more defensible, but it's also more difficult. The aim is to determine statistically the relationship between (1) some *predictor* (human trait such as height, intelligence, or finger dexterity), and (2) some indicator or *criterion* of job effectiveness, such as performance as rated by the supervisor. The basic procedure is often called predictive validation.

This procedure has five steps: (1) analyze the job and decide how to measure job performance, (2) select personal traits like finger dexterity that you believe should predict performance, (3) test candidates for these traits, (4) measure these candidates' subsequent job performance, and (5) statistically analyze the relationship between the human trait (finger dexterity) and job performance. Your aim is to determine whether the trait predicts performance.

Why is this more defensible than the judgmental approach? First, if the trait doesn't predict performance, why use it? Second, equal rights laws prohibit using traits that you can't prove distinguish between high and low job performers. But, in practice, most employers rely on judgmental approaches.

The Job-Requirements Matrix

job-requirements matrix
A more complete description of what the worker does and how and why he or she does it; it clarifies each task's purpose and each duty's required knowledge, skills, abilities, and other characteristics.

Although most employers use job descriptions and specifications to summarize their jobs' duties and responsibilities, the **job-requirements matrix** is also popular.[64] A typical matrix lists the following information, in five columns:

Column 1: Each of the job's four or five *main job duties* (such as *post accounts payable*)

Column 2: The *task statements* for the specific tasks associated with each main job duty

Column 3: The relative *importance* of each main job duty

Column 4: The *time spent* on each main job duty

Column 5: The *knowledge, skills, ability*, and *other* human characteristics (KSAO) related to each main job duty[65]

task statement
Written item that shows *what* the worker does on one particular job task; *how* the worker does it; the *knowledge, skills, and aptitudes required* to do it; and the *purpose of the task*.

The main step in creating a job-requirements matrix involves writing the *task statements*. Each **task statement** describes *what* the worker does on each of a main job duty's separate job tasks and *how* the worker does it.

Employee Engagement Guide for Managers

As noted earlier, the manager should not ignore, while writing the job specification, desirable on-the-job behaviors that apply to almost any job but that might not normally

surface through a job analysis. *Employee engagement* is an example. What should you look for in seeking engagement-oriented employees?

The human resource consulting company Development Dimensions International conducted a study of 3,800 employees, and identified several personal characteristics that seemed to predict the likelihood someone would be engaged.[66] These traits included adaptability, passion for work, emotional maturity, positive disposition, self-advocacy, and achievement orientation.

A sensible suggestion is to seek out people who already have records of being engaged employees, for instance based on their references, or on how they themselves describe how they reacted to on-the-job challenges. Another suggestion is that if you want to hire people who are more likely to become engaged employees, " . . . look for examples of engagement in other areas of life."[67] For example, perhaps seek out candidates with a demonstrated commitment to serve others, such as veterans, and voluntary first responders.

Using Competencies Models

LEARNING OBJECTIVE 4-6

Give examples of competency-based job analysis.

Most people tend to think of a "job" as a set of specific duties (such as selling, coding, or teaching) that someone carries out for pay; however, some employers are taking a different approach.[68]

Instead of listing the job's duties, they list, in *competency models* (or *profiles*), the competencies (knowledge, skills, and experience) the person must exhibit to do the job (see Figure 4-9).[69] In creating a competency model for HR managers, the Society for Human Resource Management defines a competency as a "cluster of highly interrelated attributes" (such as research design knowledge, critical thinking skills, and deductive reasoning abilities) that give rise to the behaviors (such as *critical evaluation*) someone would need to perform a given job (in this case, HR manager) effectively.[70]

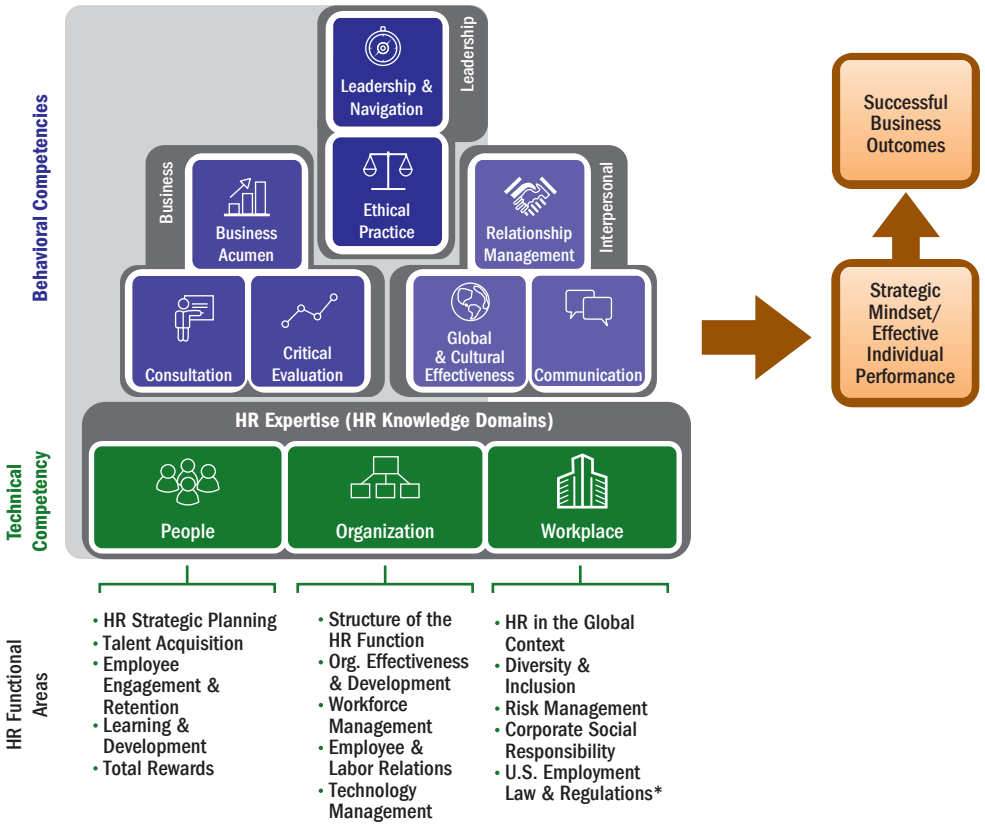

FIGURE 4-9 HR Manager Competency Model

Source: The SHRM Body of Competency and Knowledge. ©2018, Society for Human Resource Management, Alexandria, VA. Used with permission. All rights reserved.

The competency model then becomes the guide for recruiting, selecting, training, evaluating, and developing employees for each job.[71] In other words, the manager *hires*

new employees using tests and tools that measure the profile's list of competencies, *trains* employees with courses that develop these competencies, and *appraises* performance by assessing the worker's competencies.

There are several rationales for using competency models. For one thing, the *talent management* approach often involves using the same model or profile of required competencies for formulating a job's recruitment plans as for making selection, training, appraisal, and pay decisions for the job. Focusing on skills and competencies may also enable recruiters to attract a *more diverse* group of candidates then would hiring only people with specific degrees or past job experiences. Finally, as many companies continue to move employees offsite to remote work and to downsize, workers' duties are, in many cases, expanding. In such situations, hiring people with the competencies to do several jobs, rather than based on a list of job duties that may change fairly often makes sense.

The Strategic Context: Apple's Leadership Competencies

Apple is organized around functions such as Engineering, Software, and Design. Its functional organization reflects the strategic vision of Steve Jobs, Apple's founder.[72] He believed that creating innovative products required depending on the specialized functional expertise of highly trained engineering and design experts. Splitting up functional experts like these into separate product departments for products such as iPhone and iPad might fragment and dilute their expertise.

The problem is that, when they're working on a product such as the next iPhone camera, how does one ensure that these various functional experts' efforts are coordinated, since they're each housed back in their own functional departments? The answer Steve Jobs hit on was to recruit and hire functional specialists with three crucial competencies. They need *deep expertise* in their specialized area (such as cameras, or folding screens). They must focus on the technical *details* of bringing forth the best product. And they must be *collaborative*: For example, Apple's dual-lens camera with portrait mode required collaboration of dozens of teams, from areas including camera software and motion sensor hardware.[73]

Steve Jobs created Apple's functional organization as a way to create extraordinary products through product innovation. He achieved this strategic aim by hiring technical experts based on, in effect, a competency model consisting of three crucial competencies—deep expertise, the details of their technical work, and welcoming collaborative debate.

How to Write Competencies Statements

competency-based job analysis
Describing the job in terms of measurable, observable, behavioral competencies (knowledge, skills, and/or behaviors) that an employee doing that job must exhibit to do the job well.

The process for identifying a job's required competencies is called competency-based job analysis. **Competency-based job analysis** means describing the job in terms of measurable, observable, behavioral competencies. This process is similar to a traditional job analysis. Thus, you might interview job incumbents and ask about job responsibilities and activities, and required skills and knowledge.

But instead of compiling lists of job duties, your aim is to finish the statement, "*In order to perform this job competently, the employee should be able to . . . .*" Use your knowledge of the job to answer this, or the worker's or supervisor's insights, or use information from a source such as O*NET, or from the Department of Labor's Office of Personnel Management (see www.opm.gov). Then, for each competency write a *competency statement*.

A good competency statement includes three elements.[74] One is the *name and a brief description* of the competency, such as "Project Management—creating and executing accurate and effective project schedules." The second is a *description of the observable behaviors* that represent proficiency in the competency; for example, "continuously manage project risks by making timely decisions." Third are *proficiency levels*; for example (from low to high):[75]

- ***Proficiency Level 1.*** *Identify* project risks and dependencies and communicate routinely to stakeholders
- ***Proficiency Level 2.*** *Develop systems to monitor* risks and dependencies and report changes
- ***Proficiency Level 3.*** *Anticipate* changing conditions and impact to risks and dependencies and take preventive action

BP EXAMPLE British Petroleum's (BP's) exploration division executives wanted to shift employees from a job duties–oriented "that's-not-my-job" attitude to one that motivated employees to obtain the skills required to accomplish broader responsibilities.[76]

Their solution was a skills matrix similar to that in Figure 4-10. They had skills matrices for each job. Similar to Figure 4-10, each matrix listed (1) the types of skills required to do that job, such as technical expertise, and (2) the minimum skill required for proficiency at each level. The figure's note shows how to actually use the matrix.

BP's exploration division talent management efforts could now focus on recruiting, hiring, training, appraising, and rewarding employees based on the skills employees need to perform the job in question.

Level 6	6	6	6	6	6
Level 5	5	5	5	5	5
Level 4	4	4	4	4	4
Level 3	3	3	3	3	3
Level 2	2	2	2	2	2
Level 1	1	1	1	1	1
	Technical Expertise/Skills	Decision-Making and Problem-Solving Skills	Interpersonal Skills	Leadership Skills	Commercial Awareness Skills

FIGURE 4-10 Skills Matrix

Note: This is an example of a skills matrix for technical/engineering product development employees. The blue numbered boxes show the level required for each skill for these product development employees. An accompanying key would provide specific examples for each level of each skill, with difficulty increasing for each skill level starting at Level 1. For example, Level 1 for Technical Expertise/Skills might say "has or is in process of acquiring the basic knowledge necessary to do this type of job," while Level 6 might say, "Capable of conducting and supervising highly complex analytical tasks requiring advanced technical know-how and skills."
Source: Copyright Gary Dessler, PhD.

Chapter Review

Chapter Section Summaries

4-1. Employers today often view HR functions such as recruiting, selecting, training, appraising, and compensating employees as part of an integrated **talent management process**. Talent management is *the holistic, integrated, and results- and goal-oriented process of planning, recruiting, selecting, developing, managing, and compensating employees*. Taking a talent management perspective means: keep in mind that the talent management tasks are parts of a talent management process; make sure talent management decisions such as staffing and pay are goal-directed; use the same "profile" for formulating recruitment plans for a job as you do for making selection, training, appraisal, and payment decisions for it; and integrate all the talent management functions.

4-2. The purpose of *organizing* is to give each person a separate job and to ensure that these jobs are coordinated. The *organization chart* shows the title of each manager's position and, by means of connecting lines, who is accountable to whom. The organization chart also shows the *chain of command* (or "scalar chain") between the top of the organization and the lowest positions in the chart.

Departmentation is the process through which activities are grouped logically into distinct areas and assigned to managers. The *span of control* is the number of subordinates reporting directly to a manager. *Delegation* refers to the pushing down of authority from manager to subordinate.
Job analysis is the procedure through which you determine the duties of the department's positions and the characteristics of the people to hire for them. Job descriptions are a list of what the job entails, while job specifications identify what kind of people to hire for the job. The job analysis itself involves collecting information on matters such as work activities; required human behaviors; and machines, tools, and equipment used.
The basic steps in job analysis include deciding on the use of the job analysis information, reviewing relevant background information, analyzing the job, verifying the information, and developing job descriptions and job specifications.

4-3. There are various **methods for collecting job analysis information**. These include interviews, questionnaires, observation, participant diary/logs, and quantitative techniques such as position analysis questionnaires. Employers increasingly collect information from employees via the Internet.

4-4. Managers should know how to **write job descriptions**. While there is no standard format, most descriptions contain sections that cover job identification, a job summary, a listing of responsibilities and duties, the job incumbent's authority, and performance standards. It may also contain information regarding the job's working conditions and the job specifications. Many employers use Internet sources such as www.jobdescription.com to facilitate writing job descriptions.

4-5. In **writing job specifications**, distinguish between specifications for trained versus untrained personnel. For trained employees, you're looking primarily for traits like experience. For untrained personnel, you should identify traits that might predict success on the job. Most job specifications come from the educated guesses of people like supervisors, and are based mostly on judgment. Some employers use statistical analyses to identify predictors or human traits that relate to success on the job. Human traits that may predict the job candidates' likelihood to be *engaged* and that the manager might therefore want to include in the job specification include adaptability, passion for work, emotional maturity, positive disposition, self-advocacy, achievement orientation, and a work history that includes a demonstrated commitment to serve others.

4-6. With **competencies models** and profiles, the aim is to create descriptions of what is required for exceptional performance in a given role or job, in terms of required competencies, knowledge, and experience. Each job's profile then becomes the benchmark for creating recruitment, selection, training, and evaluation and development plans for each job. *Competency-based job analysis* means describing the job in terms of measurable, observable, behavioral competencies (such as skills).

Discussion Questions

4-1. Why, in summary, should managers think of staffing, training, appraising, and paying employees as a talent management process?

4-2. What items are typically included in the job description?

4-3. We discussed several methods for collecting job analysis data—questionnaires, the position analysis questionnaire, and so on. Compare and contrast these methods, explaining what each is useful for and listing the pros and cons of each.

4-4. Describe the types of information typically found in a job specification.

4-5. Explain how you would conduct a job analysis.

4-6. Do you think all companies can do without detailed job descriptions? Why or why not?

4-7. Explain how you would create a job-requirements matrix for a job.

4-8. In a company with only 25 employees, is there less need for job descriptions? Why or why not?

Individual and Group Activities

4-9. Working individually or in groups, obtain copies of job descriptions for clerical positions at the college or university where you study, or the firm where you work. What types of information do they contain? Do they give you enough information to explain what the job involves and how to do it? How would you improve on the description?

4-10. Working individually or in groups, use O*NET to develop a job description for your professor in this class. Based on that, use your judgment to develop a job specification. Compare your conclusions with those of other students or groups. Were there any significant differences? What do you think accounted for the differences?

4-11. The HRCI *Exam Content Outline* Website https://www.hrci.org/docs/default-source/web-files/phr-exam-content-outline.pdf?sfvrsn=13c44f61_28 lists the knowledge (see "Knowledge of") someone studying for the HRCI PHR certification exam needs to have in each area of human resource management (such as in Business Management, and in Talent Planning and Acquisition.)[77] In groups of several students, do four things: (1) review the *Exam Content Outline* on that Website; (2) identify the material in this chapter that relates to the Exam Content Outline's required "Knowledge Of" lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.

Experiential Exercise

The Instructor's Job Description

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Purpose: The purpose of this exercise is to give you experience in developing a job description, by developing one for your instructor.

Required Understanding: You should understand the mechanics of job analysis and be thoroughly familiar with the job analysis questionnaires. (See Figures 4-4 and 4-8.)

How to Set Up the Exercise/Instructions: Set up groups of several students for this exercise. As in all exercises in this book, the groups should be separated and should not converse with each other. Half of the groups in the class will develop the job description using the job analysis questionnaire (Figure 4-4), and the other half of the groups will develop it using the job description questionnaire (Figure 4-8). Each student should review his or her questionnaire (as appropriate) before joining his or her group.

4-12. Each group should do a job analysis of the instructor's job: Half of the groups will use the Figure 4-4 job analysis questionnaire for this purpose, and half will use the Figure 4-8 job description questionnaire.

4-13. Based on this information, each group will develop its own job description and job specification for the instructor.

4-14. Next, each group should choose a partner group, one that developed the job description and job specification using the alternate method. (A group that used the job analysis questionnaire should be paired with a group that used the job description questionnaire.)

4-15. Finally, within each of these new combined groups, compare and critique each of the two sets of job descriptions and job specifications. Did each job analysis method provide different types of information? Which seems superior? Does one seem more advantageous for some types of jobs than others?

Application Case

The Flood

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Several years ago Hurricane Maria hit Miami, Florida, and the Optima Air Filter Company. Many employees' homes were devastated. Optima found that it had to hire almost three completely new crews, one for each shift. The problem was that the company "veterans" had known their jobs so well that no one had ever bothered to draw up job descriptions for them. When about 30 new employees began taking their places, there was general confusion about what they should do and how they should do it.

The flood quickly became old news to the firm's out-of-state customers, who wanted filters, not excuses. Phil Mann, the firm's president, was at his wits' end. He had about 30 new employees, 10 "veterans," and his original factory supervisor, Maybelline. He decided to meet with Linda Lowe, a consultant from the local university's business school. She immediately had the company veterans fill out a job questionnaire that listed all their duties. Arguments ensued almost at once: Both Phil and Maybelline thought the vets were exaggerating to make themselves look more important, and the vets insisted that the lists faithfully reflected their duties. Meanwhile, the customers clamored for their filters.

Questions

4-16. Should Phil and Linda ignore the vets' protests and write the job descriptions as they see fit? Why? Why not? How would you go about resolving the differences?

4-17. How would you have conducted the job analysis? What should Phil do now?

Continuing Case

Carter Cleaning Company

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The Job Description

Based on her review of the stores, Jennifer concluded that one of the first matters she had to attend to involved developing job descriptions for her store managers.

As Jennifer tells it, her lessons regarding job descriptions in her basic management and HR management courses were insufficient to convince her of the pivotal role job descriptions actually play in the smooth functioning of an enterprise. Many times during her first few weeks on the job, Jennifer found herself asking one of her store managers why he was violating what she knew to be recommended company policies and procedures. Repeatedly, the answers were either "Because I didn't know it was my job" or "Because I didn't know that was the way we were supposed to do it." Jennifer knew that a job description, along with a set of standards and procedures that specified what was to be done and how to do it would go a long way toward alleviating this problem.

In general, the store manager is responsible for directing all store activities in such a way that quality work is produced, customer relations and sales are maximized, and profitability is maintained through effective control of labor, supply, and energy costs. In accomplishing that general aim, a specific store manager's duties and responsibilities include quality control, store appearance and cleanliness, customer relations, bookkeeping and cash management, cost control and productivity, damage control, pricing, inventory control, spotting and cleaning, machine maintenance, purchasing, employee safety, hazardous waste removal, human resource administration, and pest control.

The questions that Jennifer had to address follow.

Questions

4-18. What should be the format and final form of the store manager's job description?

4-19. Is it practical to specify standards and procedures in the body of the job description, or should these be kept separate?

4-20. How should Jennifer go about collecting the information required for the standards, procedures, and job description?

4-21. What, in your opinion, should the store manager's job description look like and contain?

Translating Strategy into HR Policies and Practices Case*,§

**The overall strategy map on the inside back cover of this text outlines the relationships involved.*

CHAPTER 4

Improving Performance at the Hotel Paris

The New Job Descriptions

The Hotel Paris's competitive strategy is "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy and boost performance by eliciting the required employee behaviors and competencies.

As an experienced human resource director, the Hotel Paris's Lisa Cruz knew that recruitment and selection processes invariably influenced employee competencies and behavior and, through them, the company's bottom line. Everything about the workforce—its collective skills, morale, experience, and motivation—depended on attracting and then selecting the right employees.

In reviewing the Hotel Paris's employment systems, she was therefore concerned that virtually all the company's job descriptions were out of date, and that many jobs had no descriptions at all. She knew that without accurate job descriptions, all her improvement efforts would be in vain. After all, if you don't know a job's duties, responsibilities, and human requirements, how can you decide whom to hire or how to train them? To create human resource policies and practices that would produce employee competencies and behaviors needed to achieve the hotel's strategic aims, Lisa's team first had to produce a set of usable job descriptions.

A brief analysis, conducted with her company's CFO, reinforced that observation. They chose departments across the hotel chain that did and did not have updated job descriptions. While they understood that many other factors might be influencing the results, they believed that the statistical relationships they observed did suggest that having job descriptions had a positive influence on various employee behaviors and competencies. Perhaps having the descriptions facilitated the employee selection process, or perhaps the departments with the descriptions just had better managers. In any case, Lisa received the go-ahead to design new job descriptions for the chain.

While the resulting job descriptions included numerous traditional duties and responsibilities, most also included several competencies unique to each job. For example, job descriptions for the front-desk clerks included competencies such as "able to check a guest in or out in five minutes or less." Most service employees' descriptions included the competency, "able to exhibit patience and guest supportiveness even when busy with other activities." Lisa knew that including these competencies would make it easier for her team to devise useful employee selection, training, and evaluation processes.

Questions

In teams or individually:

4-22. Based on the hotel's stated strategy and on what you learned here in this chapter of Dessler, *Human Resource Management*, list at least four more important employee behaviors important for the Hotel Paris's staff to exhibit.

4-23. If time permits, spend some time prior to class observing the front-desk clerk at a local hotel. In any case, create a job description for a Hotel Paris front-desk clerk.

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Writing Assignments

4-24. What is job analysis? How can you make use of the information it provides?

4-25. Explain what a competencies model is and what the model would look like for the job of university professor.

Key Terms

talent management, 90
organization chart, 91
job analysis, 92
job descriptions, 92
job specifications, 92
process chart, 94
workflow analysis, 94
business process reengineering, 95
job enlargement, 95
job rotation, 95
job enrichment, 95
diary/log, 100
position analysis questionnaire (PAQ), 100
Standard Occupational Classification (SOC), 105
job-requirements matrix, 112
task statement, 112
competency-based job analysis, 114

Endnotes

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EQRoy/Shutterstock

5 Personnel Planning and Recruiting

WHERE ARE WE NOW . . .

In Chapter 4, we discussed job analysis and the methods managers use to create job descriptions and specifications. The next step is recruiting people for these positions. The purpose of this chapter is to improve your effectiveness in recruiting candidates. The topics we discuss include **Workforce Planning and Forecasting; Why Effective Recruiting Is Important; Internal Sources of Candidates; Employee Engagement Guide for Managers; Outside Sources of Candidates; Recruiting a More Diverse Workforce;** and **Developing and Using Application Forms**. Then, in Chapter 6, we'll turn to the methods managers use to select the best employees from this applicant pool.

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

5-1 **Define** workforce planning, and explain how to develop a workforce plan.

5-2 **Explain** the need for effective recruiting and how to make recruiting more effective.

5-3 **Discuss** the main internal sources of candidates.

5-4 **Describe** how to use recruiting to improve employee engagement.

5-5 **Discuss** the main outside sources of candidates, and create an employment ad.

5-6 **Explain** how to recruit a more diverse workforce.

5-7 **Discuss** practical guidelines for obtaining application information.

With ultra-luxury properties in places like Bora Bora and Chiang Mai, Thailand, *Four Seasons Hotels & Resorts* builds its strategy on superior customer service and "unforgettable" guest experiences, both of which require very special employees.[1] As its website recently summed up, "The endless quest for personal connection and moments of unforgettable impact are what make working with Four Seasons truly distinct."[2] Its managers knew that recruiting prospective employees was a key to providing such customer service. We will see what they did.

Introduction to Recruitment and Selection

Job analysis identifies the duties and human requirements of each of the company's jobs. The next step is to decide which of these jobs you need to fill, and to recruit and select employees for them.

The recruiting and selecting process can be envisioned as a series of hurdles, as illustrated in Figure 5-1:[3]

1. Decide what positions to fill, through *workforce/personnel planning and forecasting*.
2. Build a pool of candidates for these jobs, by *recruiting* internal or external candidates.
3. Have candidates complete *application forms* and perhaps undergo initial screening interviews.
4. Use *selection tools* like tests, background investigations, and physical exams to screen candidates.
5. Decide who to make an offer to, by having the supervisor and perhaps others *interview* the candidates.

This chapter focuses on workforce planning, and on recruiting employees. Chapters 6 and 7 address tests, background checks, physical exams, and interviews.

LEARNING OBJECTIVE 5-1

Define workforce planning, and explain how to develop a workforce plan.

Workforce Planning and Forecasting

Workforce (or *employment* or *personnel*) planning is the process of deciding what positions the firm will have to fill and how to fill them. Its aim is to identify and to eliminate the gaps between the employer's projected workforce needs and the current employees who might be suitable for filling those needs.

workforce (or employment or personnel) planning
The process of deciding what positions the firm will have to fill and how to fill them.

One consulting firm's workforce planning methodology illustrates the basic process.[4]

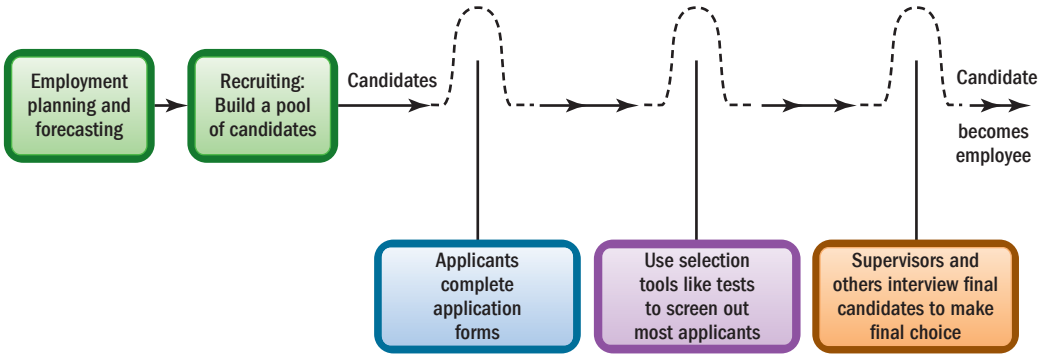
First, it *reviews the client's business plan and workforce data* (for instance, regarding how revenue influences staffing levels). This helps them understand how projected business changes may influence the client's headcount and skills requirements.

Second, it *forecasts and identifies what positions the firm will have to fill and potential workforce gaps*; this helps them understand what new future positions they'll have to fill, and what current employees may be promotable into them.

Third, it develops a *workforce plan*. Here they prioritize key workforce gaps (such as, what positions will have to be filled, and who do we have who can fill them?), and identify specific (recruitment, training, and other) plans for filling any gaps.

Finally, it implements the workforce plans (for instance, the new recruiting programs and training programs).

FIGURE 5-1 Steps in Recruitment and Selection Process



The recruitment and selection process is a series of hurdles aimed at selecting the best candidate for the job.

"Workforce planning" embraces all future positions, from maintenance clerk to CEO. However, we will see that most firms call the process of deciding how to fill executive jobs *succession planning*.[5]

The Strategic Context of Workforce Planning: Four Seasons[6]

Workforce plans should reflect the company's strategic plans. Thus, plans to enter new businesses, to build new hotels, or to reduce headcount all affect the positions the company needs to fill, and the employee competencies and skills the employer needs.

Four Seasons illustrates this. It builds its strategy on offering superior customer service—on providing "moments of unforgettable impact"—and doing so requires attracting, motivating, and retaining very special employees.[7] One way Four Seasons does this is by filling many hotel positions with internal transfers. For example, it encourages employees to apply for positions in different locations around the world.[8] In one year about 280 employees relocated from hotels from one country to another within Four Seasons. Employees love it. It gives them a chance to see the world, while building a career with a great employer.[9] And it's great for Four Seasons too: the resulting high morale, motivation, and engagement supports Four Seasons' strategic goal of superior customer service. At the Four Seasons, recruitment practices help to produce the excellent employee service the company needs to achieve its strategic goals.

Forecasting Personnel Needs (Labor Demand)

Like any good plans, employment plans are built on forecasts—basic assumptions about the future. As at Four Seasons, the employer will usually have to decide whether to fill projected openings internally, with current employees, or externally, with new people. Therefore managers usually need three sets of employment forecasts: one for *personnel needs* (demand), one for the supply of *inside candidates*, and one for the supply of *outside candidates*. Then, with these three forecasts, the manager can identify needs-versus-supply gaps, and develop recruiting, training and other plans to fill the anticipated gaps. We will start with forecasting personnel needs/demand.

How many people with what skills will we need? Managers consider several factors.[10]

Most importantly, a firm's future staffing needs reflect demand for its products or services, adjusted for changes in its turnover rate and productivity, and for changes the firm plans to make in its strategy. Forecasting workforce demand therefore starts with estimating what the demand will be for your products or services. Short term, management should be concerned with daily, weekly, and seasonal forecasts.[11] For example, retailers track daily sales trends because they know, for instance, that Mother's Day produces a jump in business and a need for more staff. Seasonal forecasts are critical for retailers contemplating end-of-year holiday sales, and for many firms such as landscaping and air-conditioning vendors. Longer term, managers will try to get a sense for future demand by speaking with customers and by following industry publications and economic forecasts. Such future predictions won't be precise, but should help you address the potential changes in demand.

Most simply, the basic process for forecasting personnel needs is to forecast revenues first. Then estimate the size of the staff required to support this sales volume. Other factors to consider include projected turnover, decisions to upgrade (or downgrade) products or services, productivity changes, financial resources, and decisions to enter or leave businesses. United Airlines estimates that 12,000 of its pilots will retire over the next 10 years. It will have to replace those and hire even more to handle the new demand it foresees.[12]

The basic tools for projecting personnel needs include trend analysis, ratio analysis, and the scatter plot.

trend analysis
Study of a firm's past employment needs over a period of years to predict future needs.

TREND ANALYSIS **Trend analysis** means studying changes in the firm's employment levels over time, particularly the past few years. For example, look at the trends, if any, in the number of employees at the end of each of the last 5 years in each subgroup (like sales, production, clerical, and administrative) to identify trends.

Trend analysis can provide an initial rough estimate of future staffing needs. However, employment levels rarely depend just on the passage of time. Other factors (like productivity and retirements, for instance) and changing skill needs will influence impending workforce needs.

ratio analysis
A forecasting technique for determining future staff needs by using ratios between, for example, sales volume and number of employees needed.

RATIO ANALYSIS Another simple approach, **ratio analysis**, means making forecasts based on the historical ratio between (1) some causal factor (like sales volume), and (2) the number of employees required (such as number of salespeople). For example, suppose a salesperson traditionally generates $500,000 in sales. If the sales revenue per salesperson ratio remains the same, you would require six new salespeople next year (each of whom produces an extra $500,000) to produce a hoped-for extra $3 million in sales.

Like trend analysis, ratio analysis assumes that things like productivity remain about the same. If sales productivity were to rise or fall, the ratio of sales to salespeople would change.

scatter plot
A graphical method used to help identify the relationship between two variables.

THE SCATTER PLOT A **scatter plot** shows graphically how two variables—such as sales and your firm's staffing levels—are related. If they are, then if you can forecast the business activity (like sales), you should also be able to estimate your personnel needs.

For example, suppose a 500-bed hospital expects to expand to 1,200 beds over the next 5 years. The human resource director wants to forecast how many registered nurses the hospital will need. The human resource director realizes she must determine the relationship between hospital size (in number of beds) and number of nurses required. She calls eight hospitals of various sizes and finds this:

Size of Hospital (Number of Beds)	Number of Registered Nurses
200	240
300	260
400	470
500	500
600	620
700	660
800	820
900	860

FIGURE 5-2 Determining the Relationship between Hospital Size and Number of Nurses

Note: After fitting the line, you can project how many employees you'll need, given your projected volume.

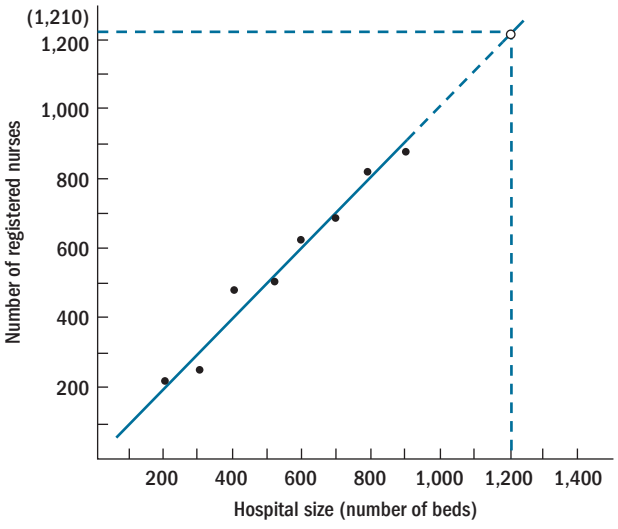


Figure 5-2's graph compares hospital size and number of nurses. If the two are related, then the points you plot (from the data in the preceding table) will tend to fall on a straight line, as in Figure 5-2. If you carefully draw in a line to minimize the distances between the line and each one of the plotted points, you will be able to estimate the number of nurses needed for each hospital size. Thus, for a 1,200-bed hospital, the human resource director would assume she needs about 1,210 nurses.

While simple, tools like scatter plots have drawbacks.[13]

1. Historical sales/personnel relationships assume that the firm's existing activities and skill needs will continue as is.
2. They tend to reward managers for adding employees, since the more they add the more they can ask for.
3. They tend to institutionalize existing ways of doing things, even in the face of change.

Beyond these simple tools, computerized systems and spreadsheets help managers translate estimates of projected productivity and sales levels into forecastable personnel requirements.

Computerized forecasts, often part of Human Capital Management (HCM) systems, enable managers to build more variables, including employee skills, into their personnel projections. At Chelan County Public Utility District, the development manager built a statistical model encompassing such things as age, tenure, turnover rate, and time to train new employees. This model helped quickly identify five occupational "hotspots" among 33 occupational groups at the company. This in turn prompted Chelan to focus more closely on creating plans to retain and hire, for instance, more systems operators.[14]

MANAGERIAL JUDGMENT Few historical trends, ratios, or relationships will continue unchanged into the future. Judgment is thus needed to adjust the forecast. Important factors that may modify your initial forecast of personnel requirements include decisions to upgrade quality or enter into new markets; technological and administrative changes resulting in increased productivity; demographic/diversity considerations; and financial resources available, for instance, a projected budget crunch.

Forecasting the Supply of Inside Candidates

The personnel demand forecast provides only half the staffing equation, by answering the question: "How many employees in what positions will we *need*?" Next, the manager must forecast the *supply* (availability) of inside and outside candidates.

Most firms start with possible inside candidates. The main task here is determining which current employees are qualified or trainable for the projected openings. Department managers or owners of smaller firms can use manual devices to track employee qualifications (or will simply know who can do what). For example, you can create your own *personnel skills inventory and development record form.*[15] For each current employee, list the person's skills, education, company-sponsored courses taken, career and development interests, languages, desired assignments, and other relevant experiences. Computerized versions of skills inventory systems are also available.[16] Translating this material, if necessary, is advisable.

personnel replacement charts
Company records showing present performance and promotability of inside candidates for the most important positions.

position replacement card
A card prepared for each position in a company to show possible replacement candidates and their qualifications.

Personnel replacement charts (Figure 5-3) are another option, particularly for the firm's top positions. They show the present performance and promotability for each position's potential replacement. As an alternative, with a **position replacement card** you create a card for each position, showing possible replacements as well as their present performance, promotion potential, and training.

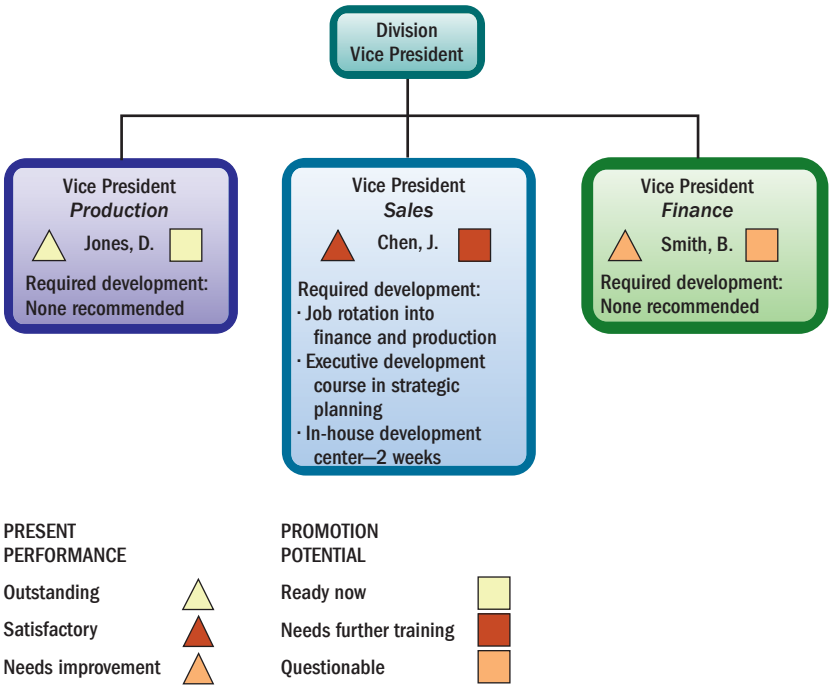


FIGURE 5-3 Personnel or Management Replacement Chart Showing Development Needs of Potential Future Division Vice Presidents

Larger firms can't track the qualifications of hundreds or thousands of employees manually. They therefore computerize this information, using systems such as Survey Analytics's Skills Inventory Software.[17] Skills inventory systems such as one from Perceptyx (www.perceptyx.com) enables employers to collect and compile employee skills information via online employee surveys.[18] Skills inventory programs help management anticipate staffing and skills shortages, and also facilitate workforce planning, recruitment, and training.[19] They typically include items like *work experience codes, product knowledge*, the employee's *level of familiarity* with the employer's product lines or services, the person's *industry experience, formal education*, industry *experiences*, foreign *language* skills, *relocation* limitations, *career* interests, and *performance* appraisals.

The usual skills inventory process is for the employee, the supervisor, and human resource manager to enter information about the employee's background, experience, and skills via the system. Then, when a manager needs someone for a position, he or she uses key words to describe the position's specifications (for instance, education and skills). The system then produces a list of qualified candidates. As the user of one such system said, "The [SumTotal] platform allows us to track and assess the talent pool. . . . The succession module helps us to identify who the next senior managers could be and build development plans to help them achieve their potential."[20]

The employer must secure all its employee data. This involves controlling access to the data, and encrypting the most sensitive data. Also ensure that the human resource department gets confidential materials back from any employees leaving. [21] Employees have legal rights regarding who has access to information about them.[22] Internet access makes it relatively easy for more people to access the firm's computerized files.[23] The U.S. Office of Personnel Management lost data on up to 14 million current and former employees this way.[24] Figure 5-4 summarizes some guidelines for keeping employee data safe.

MARKOV ANALYSIS Employers also use a mathematical process known as *Markov analysis* (or "transition analysis") to forecast availability of internal job candidates. Markov analysis involves creating a matrix that shows the probabilities that employees in the chain of feeder positions for a key job (such as from junior engineer, to engineer, to senior engineer, to engineering supervisor, to director of engineering) will move from position to position and therefore be available to fill the key position.

Forecasting the Supply of Outside Candidates

If there won't be enough inside candidates to fill the anticipated openings (or you want to go outside for another reason), you will turn to outside candidates.

Forecasting workforce availability depends first on the manager's own sense of what's happening in his or her industry and locale. For example, unemployment rates below 4% a few years ago signaled that finding good candidates would be difficult. The manager then supplements such observations with formal labor market analyses.

Since intruders can strike from outside an organization or from within, HR departments can help screen out potential identity thieves by following some basic rules:

- Perform background checks on anyone who is going to have access to personal information.
- If someone with access to personal information is out sick or on leave, don't hire a temporary employee to replace him or her. Instead, bring in a trusted worker from another department.
- Perform random background checks such as random drug tests. Just because someone passed 5 years ago doesn't mean their current situation is the same.
- Limit access to information such as SSNs, health information, and other sensitive data to HR managers who require it to do their jobs.
- Prohibit Wi-Fi use on unsecured networks.
- Deploy software that wipes lost or stolen mobile devices.
- Train everyone who has access to employee data to keep them secure. This includes locks on storage cabinets, securing workstations with passwords, and locking the workstations.

FIGURE 5-4 Keeping Data Safe

Source: HR Magazine, November 2005; https://talentculture.com/hr-working-together-keep-employee-data-safe/#:~:text=How%20to%20Protect%20Employee%20Data%201%20Educate%20employees,today%20only%20spots%20attacks%20after%20they%20occur.%20, accessed February 20, 2022; https://hrdailyadvisor.blr.com/2020/04/17/tips-for-keeping-employee-data-secure/, accessed February 20, 2022.

For example, look for economic projections online from the U.S. Congressional Budget Office (www.cbo.gov) and the Bureau of Labor Statistics (www.bls.gov). You may also want to forecast specific occupations. O*NET (discussed in Chapter 4) reports projections for most occupations. The U.S. Bureau of Labor Statistics publishes annual occupational projections both online and in the *Monthly Labor Review* and in *Occupational Outlook Quarterly*.

The fact that many jobs today depend on technology means many applicants may lack basic skills such as math, communication, creativity, and teamwork.[25] This too gets factored into the workforce and training plans.

Predictive Workforce Monitoring

When a new executive took over staffing at Valero Energy, he reviewed Valero's projected retirements, growth plans, and turnover history. He discovered that projected employment shortfalls were four times what Valero could fill with its current recruitment plans. He formulated new personnel plans for boosting employee retention and for recruiting and screening more candidates.[26]

Most employers review their workforce plans every year or so, but this isn't always sufficient For instance, Valero almost lacked sufficient time to implement a plan to address replacing employees who would soon retire.

Some employers therefore monitor their workforce needs almost continuously, called *predictive workforce monitoring (*or *predictive workforce analytics)*. For example, Intel conducts semiannual "Organization Capability Assessments." The staffing department works with the firm's business heads twice a year to assess workforce needs—both immediate and up to 2 years off.[27] Boeing considers various factors when predicting talent gaps as part of its periodic "workforce modeling" process. These include workforce characteristics such as age, retirement eligibility for job groups, economic trends, anticipated increases or decreases in staffing levels, and internal transfers/promotions.[28]

Matching Projected Labor Supply and Demand with a Plan

Workforce planning should culminate in a workforce plan. This plan should identify the positions to be filled; potential internal and external candidates and/or sources (such as temp agencies) for these positions; compliance of these plans with the firm's diversity efforts; the training and promotions moving people into the positions will entail; and the resources implementing the plan will require (such as recruiter fees and training costs).[29]

Succession Planning

succession planning
The ongoing process of systematically identifying, assessing, and developing organizational leadership to enhance performance.

Succession planning involves developing workforce plans for the company's top positions. **Succession planning** is the ongoing process of systematically identifying, assessing, and developing organizational leadership to enhance performance.[30] It entails three main steps: identify key position needs, develop inside candidates, and assess, develop, and choose inside (or outside) candidates to fill the key positions.[31]

First, based on the company's strategic and business plans, top management and the human resource director identify what the company's *future key position needs* will be. Matters to address include defining key positions and "high potentials," reviewing the company's current talent, and creating (based on the company's strategy) skills profiles for the key positions.[32]

After identifying future key positions, management turns to *developing candidates* for these jobs. This means identifying inside (or bringing in outside) candidates and providing them with the development they require to be viable candidates. This involves training and cross-functional experiences, job rotation, and global/regional assignments.[33]

Finally, succession planning requires assessing these candidates and selecting those who will actually fill the key positions. This may include testing the succession plan, for instance by having candidates take over for executives during vacations.[34]

The firm's board of directors should ensure that top management succession plans are in place. In fact, monitoring plans for and approving top management appointments is one of a corporate board's essential roles. (The others are overseeing strategy, financial results, governance, and integrity.)[35]

EXAMPLE Several years ago, Dole Foods' strategy involved improving financial performance by reducing redundancies and centralizing certain activities, including succession planning.[36] For succession planning, Dole chose software from Pilat.[37] The Pilat system holds the data on its own servers for a fee. Dole's managers access the program via the Web using a password. They complete online résumés for themselves, including career interests, and note special considerations such as geographic restrictions.[38] The managers also assess themselves on several competencies.

Then, the program notifies that manager's boss, who assesses his or her subordinate and indicates whether the person is promotable. This assessment and the online résumés then go to the division head and the divisional HR director. Dole's senior vice president for HR then uses the information to create career development plans for each manager, including seminars and other programs. As with any such tool, care needs to be taken to avoid inadvertent bias, such as against those without strong English language skills.

LEARNING OBJECTIVE 5-2

Explain the need for effective recruiting and how to make recruiting more effective.

Why Effective Recruiting Is Important

employee recruiting
Finding and/or attracting applicants for the employer's open positions.

Assuming the company authorizes you to fill a position, the next step is to use recruiting to build an applicant pool.[39] **Employee recruiting** means finding and/or attracting applicants for the employer's open positions.

Recruiting is important. If only two candidates apply for two openings, you may have little choice but to hire them. But with 10 or 20 applicants, you can use interviews and tests to screen out all but the best.

Improving Recruitment Effectiveness: Recruiters, Sources, and Branding

Of course, it's not just recruiting but effective recruiting that you want. Several things affect recruiting effectiveness.

In one early study of recruiter effectiveness, subjects were 41 graduating college students who'd been on several job interviews.[40] When asked afterwards why they thought a particular company might be a good fit, 39 mentioned the nature of the job, but 23 said they'd been turned off *by the recruiters*. For example, some were dressed sloppily; others were rude. Therefore, the employer should carefully select and train recruiters. Training should include interpersonal skills (such as in communicating), and how EEO laws affect recruiting.

Choosing the correct recruitment sources is also important; this involves determining what your recruitment options (referrals, online ads, and so on) are, and then assessing which are best for the job in question. For assessing which is "best," most employers look at how many applicants the source generates. However applicant quality is important too. Other effectiveness metrics should include how many of each source's applicants you hired, how well its applicants performed on the job, how many failed and had to be replaced, the source's effectiveness at meeting the firm's diversity targets, and applicants' performance in terms of training, absence, and turnover.[41]

Similarly, the employer's *brand* or reputation affects recruiting success. Most obviously, it is hard to recruit if the employer's reputation is that it's an awful place to work. With reviews widely available on sites like Glassdoor, employers must be diligent. Over half of job seekers who read a negative review of the employer decide against applying there.[42] Recruitment "branding" often focuses on what it's like to work at the company, including company values and the work environment.[43] Oracle, for instance, stresses contribution ("Change lives doing what you love").[44] Ensure that all applicants are treated courteously and that no reviews go unanswered.[45]

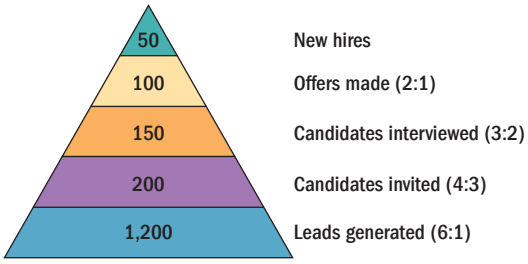


FIGURE 5-5 Recruiting Yield Pyramid

recruiting yield pyramid
The historical arithmetic relationships between recruitment leads and invitees, invitees and interviews, interviews and offers made, and offers made and offers accepted.

The Recruiting Yield Pyramid

Filling a handful of positions might require recruiting dozens or hundreds of candidates. Managers therefore use a staffing or **recruiting yield pyramid**, as shown in Figure 5-5, to gauge the staffing issues it needs to address. In Figure 5-5, the company knows it needs 50 new entry-level accountants next year. From experience, the firm also knows the following:

- The ratio of offers made to actual new hires is 2 to 1.
- The ratio of candidates interviewed to offers made is 3 to 2.
- The ratio of candidates invited for interviews to candidates interviewed is about 4 to 3.
- Finally, the firm knows that of six leads that come in from all its recruiting sources, it typically invites only one applicant for an interview—a 6-to-1 ratio.

Therefore, the firm must generate about 1,200 leads to be able to invite in 200 viable candidates of which it interviews about 150, and so on.

THE SUPERVISOR'S ROLE Line and staff cooperation in recruitment is essential. The human resource manager charged with filling an open position is seldom very familiar with the job itself. So, for example, the recruiter will want to know from the supervisor what the job really entails and its job specifications, as well as informal things like how the team gets along.

HR in Action at the Hotel Paris As they reviewed the details of the Hotel Paris's current recruitment practices, Lisa Cruz and the firm's CFO became increasingly concerned. They found that the recruitment function was totally unmanaged. To see how they handled this, see the case at the end of this chapter.

Know Your Employment Law: Recruiting Employees

As we explained in Chapter 2, numerous federal, state, and local laws and court decisions restrict what employers can and cannot do when recruiting job applicants. In practice, "the key question in all recruitment procedures is whether the method limits qualified applicants from applying."[46] So, for example, gender-specific ads that call for "busboy" or "fireman" would obviously raise red flags. Similarly, courts will often question word-of-mouth recruiting because workers tend to nominate candidates of the same nationality, race, and religion.[47]

Other laws are relevant. For example, it is illegal for employers to conspire not to hire each other's employees. Yet Apple and Google paid over $400 million to settle a claim alleging that they did just that.[48]

LEARNING OBJECTIVE 5-3
Discuss the main internal sources of candidates.

Internal Sources of Candidates

Recruiting typically brings to mind LinkedIn, employment agencies, and classified ads, but internal sources—current employees or "hiring from within"—are often the best sources.

Filling open positions with inside candidates has advantages. There is really no substitute for knowing a candidate's strengths and weaknesses, as you should after working with them for some time. Current employees may also be more committed to the company. Morale and engagement may rise if employees see promotions as rewards for loyalty. Inside candidates should require less orientation and (perhaps) training than outsiders. And external hires tend to come in at higher salaries than do insiders. Apparent "stars" hired from outside may still disappoint.

But hiring from within can also backfire. Inbreeding is a potential problem, if new perspectives are required, as may be a lack of diversity. Similarly it can limit attempts to broaden the workforce base, if the workforce is currently relatively homogeneous.

The process of posting openings can also be a waste of time, when the manager already knows whom he or she wants to hire. Rejected inside applicants may become disengaged; telling them why you rejected them and what remedial actions they might take is crucial.

Evidence suggests that insiders usually outperform outsiders.[49] One recruiter argues that internal candidates are always best, unless they simply can't pass muster. One study concluded that firms that hired CEOs from inside performed better.[50] Three experts recently wrote that the tendency to hire outside top managers is one of the biggest problems with succession practices.[51] Most big-company CEOs (77%) recently were insiders.[52] On the other hand, some firms—particularly those with problems or embarking on change—do well with outsiders.[53] As it endeavored to restructure and reorient its business more toward electric cars, GM went outside to hire Delta Airlines' CFO as its new CFO. [54]

There are some practical rules for determining whether to go outside or not. If you need specific skills that aren't available in your company, or are facing a tough turnaround, or your current succession planning is inadequate, it may be best to look outside. If your company is thriving, and you have effective succession planning and the skills you need internally, then look within.[55]

Finding Internal Candidates

job posting
Publicizing an open job to employees (often by literally posting it on bulletin boards) and listing its attributes, like qualifications, supervisor, working schedule, and pay rate.

In a perfect world, the employer will adhere to formal internal-recruitment policies and procedures. These rely heavily on job posting and on the firm's skills inventories. **Job posting** means publicizing the open job to employees (usually by literally posting it on company intranets or bulletin boards). These postings list the job's attributes, like qualifications, supervisor, work schedule, and pay rate. *Qualifications skills inventories* may reveal inside candidates who have the right background for the open job. Ideally, the employer's internal-recruitment system therefore matches the best inside candidate with the job. In practice, this doesn't always happen. For better or worse, internal politics and having the right connections may lead to placements that seem (and indeed may be) unfair.

Rehiring someone who left your employ has pros and cons. Former employees are known quantities (more or less) and are already familiar with how you do things. Inquire (before rehiring) about what they did during the layoff and how they feel about returning. After a probationary period, credit them with the years of service they had accumulated before they left.[56]

LEARNING OBJECTIVE 5-4

Describe how to use recruiting to improve employee engagement.

Employee Engagement Guide for Managers

Engagement and Promotion from Within

Many employers encourage internal recruiting, on the reasonable assumption that doing so improves employee engagement. Thus, as IBM shifted from supplying mostly hardware to consulting, it assessed its skills gaps and instituted workforce plans to train current employees for new jobs. Similarly, International Paper put a single person in charge of "Workforce Planning and Engagement."[57] Other employers, faced with strategic shifts, simply dismiss employees who don't "fit."

FedEx has long had strong internal recruiting and promotion-from-within policies. Its commitment to promotion from within grew out of founder Frederick Smith's belief that "when people are placed first they will provide the highest possible service, and profits will follow."[58]

FedEx's approach underscores the need to take an integrated approach to fostering employee engagement. For example, effective promotion from within requires a system for accessing career records and *posting job openings.* FedEx calls its job posting system JCATS (Job Change Applicant Tracking System). Announcements of new job openings via this online system usually take place each Friday. All employees applying for the position get numerical scores based on job performance and length of service. They are then advised as to whether they were chosen as candidates.

A manager interested in furthering employee engagement can draw several guidelines from FedEx's system: show a genuine interest in your employees' career aspirations; provide career-oriented appraisals; have a formal job-posting system; support organizational diversity;[59] and see that your employees have access to the training they need.

LEARNING OBJECTIVE 5-5

Discuss the main outside sources of candidates, and create an employment ad.

Outside Sources of Candidates

Employers can't always get all the employees they need from their current staff, and sometimes they just don't want to. We look at the sources firms use to find outside candidates next.

Informal Recruiting and the Hidden Job Market

Many job openings aren't publicized at all; jobs are created and become available when employers serendipitously encounter the right candidates. The author of *Unlock the Hidden Job Market* estimates that perhaps half of all positions are filled without formal recruiting.[60]

Google uses a related approach. When its research found that job boards weren't working for them, it created an in-house recruiting team. This team uses a proprietary candidate database called gHire. Google's recruiters continually expand and winnow this candidate list. They do so by searching social networking sites and by reaching out to prospective hires and maintaining dialogues with them. These in-house recruiters account for about half of Google's yearly hires.[61]

Google also analyzed how to boost employee referrals. It found that higher referral fees weren't required (Googlers already loved recommending great candidates). Instead, Google streamlined the hiring process, so more referrals get hired. It uses outside recruiters only sparingly, for special assignments, and it dropped job boards years ago.[62]

Online Recruiting[63]

Most employers post ads on their own websites, as well as on job boards such as Indeed.com, and Jopwell.com. For example, by using Indeed's smartphone app, job hunters can search for jobs by key word, read job descriptions and salaries, save jobs to a list of favorites, e-mail job links, search for jobs nearby, and often directly apply for the job. Employers should also make their job listings easily recognizable by Google's job search tool. Suppose a job seeker types a specific job search term (such as, "social media marketing director jobs for law firms in Cleveland Ohio") into Google's search box. Its search algorithms unearth relevant listings from employers, and from job listings services like LinkedIn.[64]

Employers take steps to facilitate online recruiting. For example in Hungary, the local office of accountants PriceWaterhouseCoopers (PWC) lets prospective applicants use an online simulation it calls Multipoly, so that applicants better understand what working for PWC is like. The firm attributes a significant increase in applicants to use of the game.[65] McDonald's posted employee testimonials on social networking sites.[66] The *dot-jobs* domain gives job seekers a one-click conduit for finding jobs at the employers who register at www.[employer's name].jobs. For example, applicants seeking a job at Disneyland can go to www.Disneyland.jobs.[67] Other employers simply scan through job boards' résumé listings.

Virtual (fully online) job fairs are another option. Here online visitors see a similar setup to a regular job fair. They can listen to presentations, visit booths, leave résumés and business cards, participate in live chats, and get contact information from recruiters and hiring managers. Companies such as vFairs organize fairs for employers.[68] Fairs last about 5 hours.

LinkedIn and Social Media

Recruiters use social media recruiting in several ways. They dig through social websites and competitors' publications to find applicants who may not even be looking for jobs.

They seek passive candidates (people not actively looking for jobs) by using social networking sites such as *LinkedIn Recruiter Lite* (a premium service) to browse members' résumés and to find such candidates.[69] Many firms use Twitter to announce job openings and attract job seekers who subscribe to their Twitter feeds.[70] Theladders.com lets recruiters find and maintain a dialogue with prospective job seekers.[71] Others use Facebook's friend-finding search function, and Twitter, to learn more about prospective and actual candidates. Many employers use their social media strategies to include career pages that establish an online presence highlighting the benefits of working for them. At one diversity conference several years ago, consultants Hewitt Associates displayed posters asking attendees to text message *hewdiversity* to a specific 5-digit number. Each person texting then became part of Hewitt's "mobile recruiting network," periodically receiving text messages regarding Hewitt openings.[72] (The employer should retain the text messages, in case it is audited, for instance by the EEOC.)[73]

LinkedIn Recruiter Lite lets employers post jobs on LinkedIn.[74] The employer can also conduct its own LinkedIn search for talent, by using Recruiter Lite's search filters to search through LinkedIn's database. Recruiters then use LinkedIn's InMail to send short personalized messages to possible candidates. And by joining relevant LinkedIn groups, the recruiter can discover other LinkedIn group members who might be potential hires.[75] This not only helps them generate more relevant applicants. It also lets the recruiter mine the applicants' sites for feedback from the person's blog comments and his or her likes/dislikes. Recruiters also post job openings on professional associations and other social networks.[76] (Note that in one scam, hackers created LinkedIn profiles and then engaged in online chats with recruiters, to obtain access to employees' e-mails and profiles within the company.)[77]

The Oracle Taleo Social Sourcing Cloud Service integrates with sites like LinkedIn, Twitter, and Facebook. It notifies the company's current employees about Oracle's open positions. It then scans their social connections for referral suggestions that they may want to make. With the My Staffing Pro applicant tracking system, applicants can apply on Facebook, share job openings, and connect with hiring managers.[78]

PROS AND CONS Online and social media–based recruiting generates more responses quicker and for a longer time at less cost than just about any other method.[79] But they also have two potential problems.

First is bias.[80] Older people and some underrepresented groups are less likely to be online, so such recruiting may miss some of them. Similarly, some ads have had dropdown boxes that won't allow adding data prior to 1980. And some media, such as Facebook, have in the past reportedly let recruiters specify that ads target particular (usually younger) groups.

The second problem is that it's so easy to apply online that employers can end up deluged with résumés. Self-screening helps: The Cheesecake Factory posts detailed job duties listings; those not interested needn't apply. Others have job seekers complete short online prescreening questionnaires.[81] Similarly, don't include vague qualifications in job postings; these can give unqualified candidates the impression they're qualified.[82]

Using Recruitment Software and Artificial Intelligence

applicant tracking systems (ATSs)
Online systems that help employers and recruiters attract, gather, screen, compile, and manage applicants throughout the recruiting and hiring process.

Internet overload requires that most employers use applicant tracking software to screen applications.[83] **Applicant tracking systems (ATSs)** are online systems that help employers and recruiters attract, gather, screen, compile, and manage applicants throughout the recruiting and hiring process.[84] Such systems also provide other services, including requisitions management (for monitoring the firm's open jobs), applicant data collection (for scanning applicants' data into the system), and reporting (to create various reports such as cost per hire and hire by source).[85] Most systems are from *application service providers* (ASPs). These systems basically redirect applicants to the ASP's site. Applicants who log on to take a test at the employer are actually taking the test at the ASP's site.[86]

As one example, a bank uses its ATS to bump applicants who don't meet the job's basic requirements; it then e-mails them suggesting they review the bank's site for more

appropriate positions. This bank then uses either phone or video interviews to reduce the applicant pool to a few candidates. Then its recruiters interview those candidates at headquarters, and send them through the final selection process.[87]

Similarly, software like that from Breezy HR (https://breezy.hr/)[88] offers what it calls "end-to-end" recruitment solutions. For example, the recruitment manager can use Breezy HR's software application to create the position title and position description for the ad, and to automatically post the ad to more than 40 job boards such as Indeed and ZipRecruiter. The recruiter then uses the Breezy HR application to: schedule interviews; conduct video interviews; keep track of applicants in tabular form; discuss each applicant within the app with members of the recruiter's team; and compile and report statistics, for instance to the EEOC. Similar systems are available from many vendors including Automatic Data Processing (ADP.com), HRsmart (hrsmart.com), and SilkRoad Technology (silkroad.com).[89]

ARTIFICIAL INTELLIGENCE SYSTEMS[90] It is estimated that artificial intelligence–based recruitment systems screen initial job applicants 75% to 90% faster than humans, and are 25% to 100% more effective in distinguishing between good and bad candidates.[91]

Their main focus is on automating résumé analysis. For example, Textkernel (www.textkernel.com/)[92] can quickly scan thousands of résumés and find viable candidates. It uses AI to identify alternative words. Thus if a recruiter wants a candidate with experience in autonomous driving technology, Textkernel would scan the résumés not just for "autonomous driving" but also for similar words (like "self-driving").[93]

Some researchers warn that stripping the human element from reading resumes may be a step toward "dehumanizing" the recruitment/selection process: for example, how might applicants react to believing that an algorithm rather than a human was making the hiring decision? [94] Furthermore, bias can be a problem. How the bots define "good candidate" depends on what the employer did in the past. So, if the employer usually chose White candidates from top universities and they did well, the AI system may tend to favor such candidates. Amazon quickly dropped an AI system it was testing several years ago, when it found the system was biased toward hiring men.[95]

IMPROVING ONLINE ADS The online ad you post requires thought. The best web ads don't just transfer newspaper ads to the web. As one specialist put it, "getting recruiters out of the 'shrunken want ad mentality' is a big problem." Figure 5-6 is an example of recycling a print ad to the web. The ineffective web ad has needless abbreviations and doesn't say much about why the job seeker should want that job.[96]

Now look at the effective web ad in Figure 5-6. It provides good reasons to work for this company. It starts with an attention-grabbing heading and uses the extra space to provide more specific job information. Many employers include the entire

FIGURE 5-6 Ineffective and Effective Web Ads

Ineffective Ad, Recycled from Magazine to the Web	Effective Web Ad (Space Not an Issue)
Process Engineer Pay: $65k–$85k/year Immediate Need in Florida for a Wastewater Treatment Process Engineer. Must have a min. 4–7 years Industrial Wastewater exp. Reply KimGD@WatersCleanX.com	Do you want to help us make this a better world? We are one of the top wastewater treatment companies in the world, with installations from Miami to London to Beijing. We are growing fast and looking for an experienced process engineer to join our team. If you have at least 4–7 years' experience designing processes for wastewater treatment facilities and a dedication to make this a better world, we would like to hear from you. Pay range depending on experience is $65,000–$85,000. Please reply in confidence to KimGD@WatersCleanX.com

job description.[97] Ideally, an ad also should provide a way (such as a checklist of the job's human requirements) for potential applicants to gauge if the job is a good fit.[98]

Furthermore, it's best to place employment information one click away from the employer's home page. Applicants can submit their résumés online at most larger firms' websites.

Finally, online recruiting requires caution for *applicants*. Some job boards don't check the legitimacy of the "recruiters" who place ads. Applicants may submit personal details, not realizing who is getting them.[99]

Advertising

While online recruiting is replacing traditional help wanted ads, print ads are still popular. To use print help wanted ads successfully, employers should address two issues: the advertising medium and the ad's construction.

THE MEDIA The best medium—the local paper, *The Wall Street Journal*, *The Economist*, for instance—depends on the positions for which you're recruiting. For example, the local newspaper is often a good source for local hourly help, clerical employees, and lower-level administrative employees. On the other hand, if recruiting for workers with special skills, such as furniture finishers, you'd probably want to advertise in places with furniture manufacturers, such as the Carolinas, even if your plant is in Miami. The point is to target your ads where they'll reach your prospective employees.

For specialized employees, advertise in trade and professional journals like *American Psychologist*, *Sales Management*, *Chemical Engineering*, and *Women's Wear Daily*. Help wanted ads in papers like *The Wall Street Journal* can be good sources of middle- or senior-management personnel. Most print outlets include online ads with the purchase of print help wanted ads. Electronic Arts included information about its internship program on its video game manuals.

FIGURE 5-7 Help Wanted Ad That Draws Attention

CONSTRUCTING (WRITING) THE AD Experienced advertisers use the guide AIDA (attention, interest, desire, action) to construct ads. First, you must grab attention to the ad. Why does the ad in Figure 5-7 attract attention? The phrase "next key player" helps.

Next, develop interest in the job. For instance, "Are you looking to make an impact?"

Create desire by spotlighting words such as *travel* or *challenge*. As an example, having a graduate school nearby may appeal to engineers and professional people.

Finally, the ad should prompt action with a statement like "call today."

Job applicants view ads with more specific job information as more attractive and more credible.[100] If the job has big drawbacks, consider a realistic ad. When New York City's Children's Services was having problems with employee retention, it began using these ads: "Wanted: men and women willing to walk into strange buildings in dangerous neighborhoods, [and] be screamed at by unhinged individuals. . . ."[101]

Are You Our Next Key Player?

PLANT CONTROLLER — **Northern New Jersey**

Are you looking to make an impact? Can you be a strategic business partner and team player, versus a classic, "bean counter"? Our client, a growing Northern New Jersey manufacturer with two locations, needs a high-energy, self-initiating, technically competent Plant Controller. Your organizational skills and strong understanding of general, cost, and manufacturing accounting are a must. We are not looking for a delegator, this is a hands-on position. If you have a positive can-do attitude and have what it takes to drive our accounting function, read oh!

Responsibilities and Qualifications:

- Monthly closings, management reporting, product costing, and annual budget.
- Accurate inventory valuations, year-end physical inventory, and internal controls.
- 4-year Accounting degree, with 5–8 years experience in a manufacturing environment.
- Must be proficient in Microsoft Excel and have general computer skills and aptitude.
- Must be analytical and technically competent, with the leadership ability to influence people, situations, and circumstances.

If you have what it takes to be our next key player, tell us in your cover letter, *"Beyond the beans, what is the role of a Plant Controller?"* Only cover letters addressing that question will be considered. Please indicate your general salary requirements in your cover letter and email or fax your resume and cover letter to:

Ross Giombetti
Giombetti Associates
2 Allen Street, P.O. Box 720
Hampden, MA 01036
Email: Rossgiombetti@giombettiassoc.com
Fax: (413) 566-2009

GIOMBETTI ASSOCIATES
PERFORMANCE DYNAMICS
INSTITUTE OF LEADERSHIP

Employment Agencies

There are three main types of employment agencies: (1) public agencies operated by federal, state, or local governments; (2) agencies associated with nonprofit organizations; and (3) privately owned agencies.

PUBLIC AND NONPROFIT AGENCIES Every state has a public, state-run employment service agency. The U.S. Department of Labor supports these, through grants and other assistance such as a nationwide

computerized job bank. Similarly the DOL's CareerOneStop enables agency counselors to advise applicants about available jobs in other states as well.[102]

Some employers have mixed experiences with public agencies. For one thing, applicants for unemployment insurance are required to register and to make themselves available for job interviews. Some may not be interested in returning to work, so employers can end up with applicants who have little desire for immediate employment. And fairly or not, employers probably view some of these local agencies as lethargic in their efforts to fill area employers' jobs.

Yet these agencies are useful. Beyond just filling jobs, counselors will visit an employer's work site, review the employer's job requirements, and even assist the employer in writing job descriptions. Most states have turned their local state employment service agencies into "one-stop" shops—neighborhood training/employment/career assessment centers.[103] More employers should be taking advantage of these centers (formerly the "unemployment offices" in many cities).

Most (nonprofit) professional and technical societies, such as the Institute for Electrical and Electronic Engineers (IEEE), have units that help members find jobs. Many special public agencies place people who are in special categories, such as those who are disabled.

PRIVATE AGENCIES Private employment agencies are important sources of clerical, salaried, and managerial personnel. They charge fees (set by state law and posted in their offices) for each applicant they place. Most are "fee-paid" jobs, in which the employer pays the fee. Use one if:

1. Your firm doesn't have its own human resource department and feels it can't do a good job recruiting and screening.
2. You must fill a job quickly.
3. There is a perceived need to attract more minority or female applicants.
4. You want to reach currently employed individuals, who might feel more comfortable dealing with agencies than with competing companies.
5. You want to reduce the time you're devoting to recruiting.[104]

Yet using employment agencies has potential pitfalls. For example, the employment agency's screening may let poor applicants go directly to the supervisor responsible for hiring, who may in turn naively hire them. Conversely, improper screening at the agency could block potentially successful applicants.

To help avoid problems:

1. Give the agency an accurate and complete job description.
2. Make sure tests, application blanks, and interviews are part of the agency's selection process.
3. Periodically review equal employment data on candidates accepted or rejected by your firm, and by the agency.
4. Screen the agency. Check with other managers to find out which agencies have been the most effective at filling the sorts of positions you need filled. Review the Internet and classified ads to discover the agencies that handle the positions you seek to fill.
5. Supplement the agency's reference checking by checking at least the final candidates' references yourself.

Recruitment Process Outsourcers

Recruitment process outsourcers (RPOs) are special vendors that handle all or most of an employer's recruiting needs. They usually sign short-term contracts with the employer and receive a monthly fee that varies with the amount of actual recruiting the employer needs done. This makes it easier for an employer to ramp up or ramp down its recruiting expenses, as compared with paying the relatively fixed costs of an in-house recruitment office.[105] Large RPOs include ADP, Manpower Group Solutions, Allegis Global Solutions, and IBM Recruitment Services.[106]

On-Demand Recruiting Services

on-demand recruiting services (ODRS)
Services that provide short-term specialized recruiting to support specific projects without the expense of retaining traditional search firms.

On-demand recruiting services (ODRS) are recruiters who are paid by the hour or project, instead of a percentage fee, to support a specific project. For example, when the human resource manager for a biotech firm had to hire several dozen people with scientific degrees and experience in pharmaceuticals, she used such a firm. A traditional recruiting firm might charge 20% to 30% of each hire's salary. The ODRS firm charged by time, rather than per hire. It handled recruiting and prescreening and left the client with a short list of qualified candidates.[107]

Temporary, Gig, and Alternative Staffing

From Uber drivers to temp employees, vast numbers of workers today work in the gig economy, in freelance, contract, temporary, or consultant capacities.[108] Many employers build their staff wholly or in part around freelance programmers, designers, or marketers. Google employs over 120,000 such workers.[109]

There are several types of gig worker sourcing platforms.[110] Toptal and Catalant are marketplaces for premium talent, generally *high-end experts* such as data scientists (and sometimes CEOs). Upwork and Freelancer are marketplaces for *freelance workers*. Recruiters use these to identify workers for specific projects such as designing a logo. Employers turn to platforms such as InnoCentive and Kaggle for help in generating *innovative solutions*, such as how to mitigate cybersecurity risks. Most such platforms enable employers to recruit based on the freelancer's reputation. For example, upwork.com reports its members' skills assessments, and lists detailed project work experience.

Temporary Workers

Employers also increasingly supplement their permanent workforces by hiring contingent or temporary workers, often through temporary help employment agencies. Also known as *part-time* or *just-in-time workers*, the contingent workforce is big and growing, and it isn't limited to clerical or maintenance staff. It includes engineering, science, and management support occupations, such as temporary chief financial officers, human resource managers, and chief executive officers.[111]

Employers use temps for many reasons. One is the trend toward organizing around short-term projects. For example, Makino, which manufactures machine tools, outsources the installation of large machines to contract firms, who in turn hire temps to do the installations. Flexibility is another concern, with more employers wanting to quickly reduce employment levels if an economic turnaround proves short-lived.[112] Other employers use temp agency–supplied workers to "try out" prospective employees. Employers have also long used "temps" to fill in for employees who were out sick or on vacation.

The employer should compare costs of temps versus permanent employees. Productivity in output per hour paid can be higher since temps often only get paid when they're working—not for days off. However, temps often cost employers more per hour because the agency gets a fee. But the agency also does the recruiting, whereas for permanent employees the employer should include costs such as recruiting ads and interviewers' time.[113]

alternative staffing
The use of nontraditional recruitment sources.

Temporary employees are examples of **alternative staffing**—basically, the use of nontraditional recruitment sources. Other alternative staffing arrangements include "in-house temporary employees" (people employed directly by the company, but on an explicit short-term basis) and "contract technical employees" (highly skilled workers like engineers, who are supplied for long-term projects under contract from outside technical services firms).

THE TEMP AGENCY Employers hire temp workers either through direct hires or through temporary staff agencies. Direct hiring involves simply hiring workers and placing them on the job. The employer usually pays these people directly, as it does all its

employees. However it classifies them separately, as casual, seasonal, or (usually) *temporary employees*, and often pays few if any benefits.[114] The other approach is to use a temp agency. Here the agency handles all the recruiting, screening, and payroll administration for the temps. Thus, Nike hired Kelly Services to manage Nike's temp needs.

When working with temporary agencies, understand their policies. For example, with temps, the time sheet is not just a verification of hours worked. Once the worker's supervisor signs it, it's usually an agreement to pay the agency's fees. What is the policy if the client wants to hire one of the agency's temps as a permanent employee? How does the agency plan to recruit employees? And finally, check the firm's references.[115]

TEMP EMPLOYEES' CONCERNS To make temporary relationships successful, those supervising temps should understand their concerns. Historically some temp workers have felt a little like second-class citizens; it's not clear that even today such concerns have changed. (Some today argue that temp abuses include wage theft.)[116]

In one survey, temporary workers said they were:

1. Treated by employers in a discouraging way.
2. Insecure about their employment and pessimistic about the future.
3. Worried about their lack of insurance and pension benefits.
4. Misled about their job assignments and in particular about whether temp assignments were likely to become full-time.
5. "Underemployed" (particularly those trying to return to the full-time labor market).[117]

The New Normal feature explains another recruitment source.

THE NEW NORMAL

Remote Workers

People working remotely from home or other outside locations jumped over 400% from 2019 to 2022.[118] By 2021, a Gallup survey found that about 45% of full-time U.S. employees either worked from home full-time (25%), or part of the time (20%). Among salaried office workers, 67% said they worked from home either all the time (41%) or some of the time (26%).[119]

Although many (or most) will return to their offices, remote work probably won't return to prepandemic levels. About 91% of those working remotely hope they'll be able to continue to do so at least part-time, says Gallup. About 54% would prefer a hybrid arrangement, splitting their time between home and office work. Just over a third would prefer working from home exclusively, while 9% would rather be back in the office full-time. Those preferring remote work mostly cited the flexibility and the time they saved by not commuting.

In one survey, 84% of recruiters adapted their recruiting process so they could interact remotely with applicants. Almost 60% of them are doing so by using LinkedIn, Facebook, and similar social media. About 80% use video conferencing.[120]

Employers can take other steps to improve remote worker recruiting. Review and revise the company's jobs page to emphasize terms like "remote jobs" and "telecommuting." And, advertise on remote-targeted job sites such as www.flexjobs.com/.[121] ■

Know Your Employment Law: Supplied/Contract Employees

For purposes of most employment laws, with certain limited exceptions, employees of temporary staffing firms working in an employer's workplace will be considered to be employees both of the agency and of the employer.[122] The employer's liability depends on the degree to which its supervisors control the temp employee's activities. Therefore, the more the agency does, the better. For example, have the agency handle training. Let it negotiate and set the pay rates and vacation/time-off policies.

Employers can take other steps. Require the agency to follow the employer's background-checking process and to assume the legal risks if the employer and agency

are found to be jointly responsible. Carefully track how many temporary employees your company actually has. Screen and supervise temporary employees with care if they may have access to your intellectual property and computer systems.[123] Don't treat temporary workers as "employees," for instance, in terms of business cards, employee handbooks, or employee ID badges.[124]

Poaching

A few years ago, Uber agreed to pay Google about $245 million to settle claims that an employee of Google's Waymo driverless car division took Waymo secrets with him when he joined Uber.

"Poaching" employees from competitors can produce good recruits but can be problematic. For example, the employee almost always has a fiduciary responsibility to the current employer, for instance, regarding proprietary information. Therefore, keep the possibility of litigation in mind. Don't ask for or accept proprietary information about your competitor.

There is no way for a target firm to become "poaching proof." However, steps such as having employees sign noncompete agreements and antisolicitation clauses prohibiting them from soliciting current customers may help protect the employer.[125] Both Apple and Google allegedly took a more dubious approach: According to several lawsuits, they simply agreed between themselves not to poach each other's employees, but then agreed to a $415 million legal settlement.[126]

Offshoring and Outsourcing Jobs

Rather than bringing people in to do the company's jobs, outsourcing and offshoring send the jobs out. *Outsourcing* means having outside vendors supply services (such as benefits management, market research, or manufacturing) that the company's own employees previously did in-house. *Offshoring* means having outside vendors or employees *abroad* supply services that the company's own employees previously did in-house.

Employees, unions, legislators, and even many business owners feel that "shipping jobs out" (particularly overseas) is ill-advised. That notwithstanding, employers are sending jobs out, and not just hourly jobs. For example, U.S. employers shipped about 135,000 IT jobs a few years ago to countries like India.[127]

Sending out jobs, particularly overseas, presents employers with special personnel challenges. One is the likelihood of cultural misunderstandings (such as between your home-based customers and the employees abroad). Others are security and information privacy concerns; the need to deal with foreign contract, liability, and legal systems issues; and the fact that the offshore employees need special training (for instance, in using pseudonyms like "Jim" without discomfort).

Rising wages in Asia, coupled with reputational issues, a desire to invest more in local communities, and political pressures are prompting employers to bring jobs back. Several U.S. employers including Apple and Microsoft are shifting jobs back to America.[128]

America's H-1B visa program originally aimed to help U.S. employers temporarily hire workers from abroad in specialty occupations. However, newspaper accounts of employers bringing in foreign workers to be trained by their American counterparts before taking over their jobs prompted legislators (and others) to question the program.[129] For example, they want to limit use of H-1B visas to skilled foreign workers.[130] With the program under scrutiny, the number of evidence requests (required to confirm the need for the visa) soon rose from about 17% of applications to over 46%.[131] In 2021, about 407,000 H-1B visas were approved, up from about 390,000 in 2019.[132]

Executive Recruiters

Executive recruiters (also known as *headhunters*) are special employment agencies employers retain to seek out top-management talent for their clients. The percentage

of your firm's positions filled by these services might be small. However, these jobs include key executive and technical positions. For executive positions, headhunters may be your only source of candidates. The employer always pays the fees.

There are contingent and retained executive recruiters. Members of the Association of Executive Search Consultants usually focus on executive positions paying $175,000 or more and on "*retained* executive search." They are paid regardless of whether the employer hires the executive through the search firm's efforts. *Contingency-based recruiters* tend to handle junior- to middle-level management job searches in the $100,000 to $180,000 range. Recruiter fees are around 15% to 25% of the executive's total first-year pay (salary plus bonus).[133] Top recruiters (all retained) include Heidrick and Struggles, Egon Zehnder International, Russell Reynolds, and Spencer Stuart.

The challenging part of recruiting has always been finding potential candidates. Not surprisingly, Internet-based databases now dramatically speed up such searches. Executive recruiters are also creating specialized units aimed at specialized functions (such as sales) or industries (such as oil products).

Recruiters bring a lot to the table. They have many contacts and are relatively adept at finding qualified candidates who aren't actively looking to change jobs. They can keep your firm's name confidential and can save top management's time by building an applicant pool. The recruiter's fee might actually turn out to be small when you compare it to the executive time saved.

The big issue is ensuring that the recruiter really understands your needs and then delivers properly vetted candidates. It is essential that the employer explain completely what sort of candidate is required. Some recruiters also may be more interested in persuading you to hire a candidate than in finding one who will really do the job. And one or two of the "final candidates" may actually just be fillers to make the recruiter's one "real" candidate look better.

WORKING WITH RECRUITERS Retaining and working with executive recruiters requires some caution. In choosing and working with one, guidelines include[134]

1. Make sure the firm can conduct a thorough search. Under their ethics code, a recruiter can't approach the executive talent of a former client for a period of 2 years after completing a search for that client. Because former clients are off limits for 2 years, the recruiter must search from a constantly diminishing pool.[135]
2. Meet the individual who will actually handle your assignment.
3. Make sure to ask how much the search firm charges. Get the agreement in writing.[136]
4. Make sure the recruiter and you agree on what sort of individual to hire for the position.
5. Ask if the recruiter has vetted the final candidates. Do not be surprised if the answer is, "No, I just get candidates—we don't really screen them."
6. *Never* rely solely on any recruiter to do all the reference checking. Let them check the candidates' references, but get notes of these references in writing from the recruiter (if possible). Recheck at least the final candidates' references yourself.
7. Consider using a recruiter who has a special expertise in your specific industry—he or she may have the best grasp of who is available.
8. Make sure the recruiter is aware of and following your diversity recruitment guidelines.

INTERNAL RECRUITING More employers are bringing management recruiting in-house. They still use executive recruiters such as Heidrick and Struggles to conduct top officer (CEO and president) and board member placements and to conduct confidential searches. But employers such as General Electric and Google now have their own internal recruiting offices doing much of their own management recruiting. Time Warner reported saving millions of dollars per year using internal recruiting teams.[137]

With employers increasingly finding new ways of recruiting top management talent, executive search firms are diversifying. For example, the head of Korn/Ferry says his firm is increasingly being asked to investigate prospective candidates' backgrounds, and his firm is also expanding into areas such as employee development.[138]

HR Tools for Line Managers and Small Businesses: Recruiting 101

There comes a time in the life of most small businesses when it dawns on the owner that new blood is needed to take the company to the next level. Should the owner personally recruit this new person?

While most large firms don't think twice about hiring executive search firms, small-firm owners will understandably hesitate before committing to a fee that could reach $60,000 or more for a $120,000 marketing manager.

However, engaging in a search like this is not like seeking supervisors or data entry clerks. Chances are, you won't find a top manager by placing ads. He or she is probably not reading the want ads. You'll end up with résumés of people who are, for one reason or another, out of work, unhappy with their work, or unsuited for your job. Many may be capable. But you will have to ferret out the gem by interviewing and assessing them.

You won't know where to place or how to write the ads; or where to search, who to contact, or how to screen out the laggards who may appear to be viable candidates. Even if you do, this process will be time-consuming and will divert your attention from other duties.

If you do decide to do the job yourself, consider retaining an industrial psychologist to spend 4 or 5 hours assessing the problem-solving ability, personality, interests, and energy level of the two or three candidates in which you are most interested. The input can provide a valuable perspective on the candidates.

Exercise special care with applicants from competing companies. Some of the issues at 2018's Uber versus Google Waymo autonomous driving technology trial included, for instance, "Is information 'stolen' if you simply remember it?" and "Even if the engineer developed the solution him or herself, the person cannot tell new employers about specific engineering solutions." Always ascertain if applicants are bound by noncompete or nondisclosure agreements. And perhaps check with an attorney before asking certain questions—regarding patents or potential antitrust issues, for instance.[139]

Referrals and Walk-Ins

Employee referral campaigns are important. Here the employer posts announcements of openings and requests for referrals on its website, bulletin boards, and/or wallboards. It often offers prizes or cash awards for referrals that lead to hiring. For example, at health-care giant Kaiser Permanente, referring someone for one of its "award-eligible positions" can produce bonuses of $3,000 or more.[140] The Container Store trains employees to recruit candidates from among the firm's customers. Many employers use tools like Jobvite Refer to make it easier for their employees to publicize the firm's open positions via their own social media sites.[141] Having a referral bonus policy, and a higher bonus, both increase employee referrals.[142]

Referral's big advantage is that it tends to generate "more applicants, more hires, and a higher yield ratio (hires/applicants)."[143] Current employees tend to provide accurate information about their referrals because they're putting their own reputations on the line. And the new employees may come with a more realistic picture of what the firm is like. One SHRM survey found that of 586 employer respondents, 69% said employee referral programs are more cost-effective than other recruiting practices, and 80% specifically said they are more cost-effective than employment agencies. On average, referral programs cost around $400–$900 per hire in incentives and rewards.[144]

If morale is low, address that prior to asking for referrals. And if you don't hire someone's referral, tell your employee why you didn't hire their candidate. In addition, remember that relying on referrals might be discriminatory, where a workforce is already homogeneous. Here one suggestion is to offer bigger bonuses for diversity hires.[145]

WALK-INS Particularly for hourly workers, walk-ins—direct applications made at your office—are a big source of applicants. Sometimes, posting a "Help Wanted" sign outside the door may be the most cost-effective way of attracting good local applicants. Treat walk-ins courteously, for both the employer's community reputation and the applicant's self-esteem. Many employers give every walk-in a brief interview, even if it is only to get information on the applicant "in case a position should be open in the future." Employers also typically receive unsolicited applications from professional and salaried applicants. Good business practice requires answering all applicants' letters of inquiry promptly.

College Recruiting

college recruiting
Sending an employer's representatives to college campuses to prescreen applicants and create an applicant pool from the graduating class.

College recruiting—sending an employer's representatives to college campuses to prescreen applicants and create an applicant pool from the graduating class—is important. It is obviously a very direct way to reach graduating students; and historically, about 40% of entry level managerial/professional jobs go to recent college grads.[146]

One problem is that such recruiting is expensive. Schedules must be set well in advance, company brochures printed, interview records kept, and much time spent on campus. And recruiters are sometimes ineffective. Some are unprepared, show little interest in the candidate, and act superior. Many don't screen candidates effectively. Employers need to train recruiters in how to interview candidates, how to explain what the company has to offer, and how to put candidates at ease. The recruiter should be personable and have a record of attracting good candidates.[147]

The campus recruiter has two main goals. One is to determine if a candidate is worthy of further consideration. Traits to assess include communication skills, education, experience, and technical and interpersonal skills. The other aim is to make the employer attractive to candidates. A sincere and informal attitude, respect for the applicant, and prompt follow-up emails/letters can help sell the employer to the interviewee.

Employers who build relationships with opinion leaders such as career counselors and professors have better recruiting results.[148] Building close ties with a college's career center provides recruiters with useful feedback regarding things like labor market conditions and the effectiveness of one's online and offline recruiting ads.[149] Employers should narrow the list of schools its recruiters visit. Use criteria such as academic program quality, number of students enrolled, curriculum, distance to campus, competitive environment (student salary expectations, and so forth), and student diversity.[150]

Employers generally invite good candidates for an on-site visit. The invitation should be warm but businesslike, and provide a choice of dates. Have a host meet the applicant, preferably at the airport or at his or her hotel. A package containing the applicant's schedule as well as other information—such as annual reports and employee benefits—should be waiting for the applicant at the hotel.

Plan the interviews, and adhere to the schedule. Avoid interruptions; give the candidate the undivided attention of each person with whom he or she interviews. Have another recently hired graduate host the candidate's lunch. Make any offer as soon as possible, preferably at the time of the visit. Frequent follow-ups to "find out how the decision process is going" may help to tilt the applicant in your favor.

What else to do? A study of 96 graduating students provides some insights. Fifty-three percent said "on-site visit opportunities to meet with people in positions similar to those applied for, or with higher-ranking persons" had a positive effect. Fifty-one percent mentioned, "impressive hotel/dinner arrangements and having well-organized site arrangements." "Disorganized, unprepared interviewer behavior, or uninformed, useless answers" turned off 41%. Schools such as the University of Virginia provide job-seeking students with guidelines about what to expect at the employer's on-site visit.[151]

INTERNSHIPS Internships can be win–win situations. For students, they can mean honing business skills, learning more about potential employers, and discovering one's career likes (and dislikes). Employers can use the interns to make useful contributions

while evaluating them as possible full-time employees. A study found that 60%–70% of internships turned into job offers (and paid internships were more likely to lead to jobs).[152]

Unfortunately, some internships turn into nightmares. Many interns, particularly in industries like fashion and media, have reported long unpaid days of menial work.[153] And many otherwise qualified candidates can't afford to work for free, or almost for free. Courts have laid out several criteria for determining whether someone is actually an "intern." Criteria include: whether both the intern and employer understand that no compensation is expected; whether the internship provides training similar to an educational environment; and whether the internship is tied to the person's formal education program.[154] About half the interns working recently are apparently paid at least a minimum wage, while the others work as free volunteers.[155]

Returning Midcareer Professionals

Many employers, including Amazon, use "returnship" programs to recruit professionals who have spent some years away from the workforce.[156] Some may have left the workforce temporarily to start a family, for instance, or to try new career.

Programs may be of two kinds. Some are project-based. Here employers assign returnees to short-term projects. Those excelling may get offers of permanent employment. Other programs are job-based. Employers recruit candidates for current or planned open positions. Those who do well may move permanently into those roles.

Military Personnel

Returning and discharged U.S. military personnel provide an excellent source of trained and disciplined recruits.[157] Yet all too often they have trouble getting placed. To help remedy this, the federal government offers tax credits to employers who hire veterans, and many employers including Walmart have special programs to recruit veterans.[158] The military also has programs to facilitate soldiers finding jobs. Thus the U.S. Army's Partnership for Youth Success enables someone entering the Army to select a post-Army corporate partner as a way to help soldiers find a job after leaving the Army.[159]

Misconceptions about veterans (for instance, that posttraumatic stress disorders influence job performance) are generally not valid.[160] Walmart has a program offering jobs to honorably discharged veterans who left the service in the past year.[161] The website www.helmetstohardhats.org puts vets together with building trades employers.[162]

To better understand the applicant's capabilities, recruiters should be knowledgeable about the basics of the military's branches and pay scales. Also understand how skills acquired in the military may translate into the jobs for which you are recruiting.[163]

The accompanying Profit Center feature describes how one employer reduced recruiting costs.

HR AS A PROFIT CENTER

Reducing Recruitment Costs[164]

There are numerous costs associated with recruiting applicants. Direct, easily quantifiable costs include items like advertising and employment agency fees. Indirect costs include items like the cost of a supervisor's time to review resumes.

We've already addressed some ways that employers reduce recruiting costs. For example, *employment agencies'* fees usually cover items like help wanted advertising, and particularly for employers without their own HR teams, agencies can save the employer money. *Applicant tracking systems* (ATS) reduce costs by reducing paperwork, and by automating interactions with and prescreening applicants. (Giving the employment agency access to the ATS further automates the process and trims costs.) More use of your *company website* for recruiting is generally cost-effective.

Use *automated messaging* for tasks like acknowledging receipt of resumes. *Employee referrals* plans are relatively efficient at producing hirable candidates. Maintain a *talent pool* by retaining prescreened but not-hired applicants, rather than dumping them at the end of each search.[165]

GE Medical (now GE Healthcare) hires technical workers to design sophisticated medical devices such as CT scanners. As an example of cutting recruitment costs, some years ago it cut its hiring costs by 17%, reduced time to fill the positions by 20% to 30%, and cut in half the percentage of new hires who don't work out.[166]

GE Medical's HR team accomplished this in part by applying its purchasing techniques to its dealings with recruiters. For example, it called a meeting and told 20 recruiters that it would work with only the 10 best. To measure "best," the company created measures inspired by manufacturing techniques, such as "percentage of résumés that result in interviews" and "percentage of interviews that lead to offers." Similarly, GE Medical discovered that current employees are very effective as references. For instance, GE Medical interviews just 1% of applicants whose résumés it receives, while 10% of employee referrals result in actual hires. So GE Medical took steps to double the number of employee referrals. It simplified the referral forms, eliminated bureaucratic submission procedures, and added a small reward like a gift certificate for referring a qualified candidate. GE also upped the incentive—$2,000 if someone referred is hired, and $3,000 if he or she is a software engineer. (Several years ago, GE spun off ownership of its Medical/Healthcare unit to GE shareholders.) ■

LEARNING OBJECTIVE 5-6

Explain how to recruit a more diverse workforce.

Recruiting a More Diverse Workforce

The recruiting tools we described to this point are certainly useful for recruiting minority applicants, too. However, diversity recruiting requires several special steps. For example, Facebook is said to award its recruiters more points for hiring Black, LatinX, or female engineers.[167] Pinterest set aggressive diversity goals, such as to hire women for 30% of open engineer jobs. Although it missed that goal, women still represented 22% of the engineers it hired.[168] Microsoft aims to double the number of Black mid-level managers in the next few years. It is requiring more diverse pools of job candidates, expanding training for its Black and LatinX employees, and improving its mentoring programs.[169]

Recruiting Women

Given the progress women have made in getting and excelling in a wide range of professional, managerial, and military occupations, one might assume that employers need no special recruitment efforts to recruit women, but that's not the case. For example, women still face headwinds in certain male-dominated occupations such as engineering. Women also carry the heavier burden of child-rearing, fill proportionately fewer high-level managerial posts, are less likely to apply for certain jobs, and still earn only about 70% of what men earn for similar jobs. Many employers therefore focus particular efforts on recruiting qualified women.[170]

The most effective strategy is top management driven.[171] Here the employer emphasizes the importance of recruiting women, identifies gaps in the recruitment and retention of women, and implements a comprehensive plan to attract female applicants. A study found that women were about as likely as men to see help wanted ads, but were less likely to apply for the jobs.[172] One aim is therefore to show that the employer is somewhere women want to work, and the details of any such plan needn't be complicated. For example, particularly for "nontraditional" jobs (like engineering), use the company website to highlight women now doing those jobs. Emphasize the employer's mentoring program for moving women up. Offer real workplace flexibility, for example, not just flexible hours but also the option of staying on a partner track even while working part-time. Focus some of the recruiting effort on women's organizations, women's employment websites, and women's colleges. Make sure benefits cover matters such as prenatal care. Maintain a zero-tolerance sexual harassment policy.

Recruiting Single Parents

Recently, 15% of parents living with children under 18 were living without a partner. Seventy-eight percent of parents living with children were married. And 7% were living with an unmarried, cohabiting partner.[173]

In general, the first step in attracting and keeping single parents is making the workplace user friendly.[174] A supportive attitude on the supervisor's part can go far toward making the single parent's work–home balancing act more bearable.[175] More and more firms also have *flextime* programs that provide employees some schedule flexibility (such as 1-hour windows at the beginning or end of the day). Unfortunately, for many single parents, this may not be enough. We'll discuss other options in Chapter 13, Benefits and Services.

Older Workers

There are just over ten million Americans age 65 and older working.[176] It therefore makes sense for employers to encourage older workers to stay (or to come to work at the company). The big draw for many older workers is to provide opportunities for flexible (and often shorter) work schedules.[177] At one company, workers over 65 can progressively shorten their work schedules; another company uses "mini shifts" to accommodate those interested in working less than full-time. Other suggestions include the following: phased retirement that allows workers to ease out of the workforce,[178] portable jobs for "snowbirds" who wish to live in warmer climates in the winter, part-time projects for retirees, and full benefits for part-timers.[179]

Older workers are good workers. A study focused on the validity of six common stereotypes about older workers: that they are less motivated, less willing to participate in training and career development, more resistant to change, less trusting, less healthy, and more vulnerable to work–family imbalance.[180] There was little or no support for the common age stereotypes.

As always in recruiting, project the right image. The most effective ads emphasize schedule flexibility *not* "giving retirees opportunities to transfer their knowledge."[181] Raise employees', managers', and recruiters' awareness about incorrect age stereotypes.[182]

Recruiting Applicants from Underrepresented Groups

Similar prescriptions apply to recruiting minorities.[183] First, *understand* the barriers that prevent minorities from applying. For example, some minority applicants won't meet the educational or experience standards for the job; many employers therefore offer remedial training. In one retail chain, a lack of role models stopped women from applying. Other times schedule flexibility is crucial.

After recognizing the impediments, one turns to formulating plans for remedying them and for attracting and retaining minorities and women. This may include, for instance, basic skills training, flexible work options, role models, and redesigned jobs.

Next, implement these plans. For example, many job seekers check with friends when job hunting, so encouraging your minority employees to assist in your recruiting makes sense. Diversity recruitment specialists include www.diversity.com and www.2trabajo.com.[184] Others collaborate with specialist professional organizations, such as the National Black MBA Association (http://careersuccess.nbmbaa.org/).

Some employers experience difficulty in assimilating people previously on welfare. Applicants sometimes lack basic work skills, such as reporting for work on time, or working in teams. The key to welfare-to-work seems to be a pretraining program, consisting of counseling and basic skills training over several weeks, offered by the employer and/or many states.[185]

Recruiting People with Disabilities

Bias against people with disabilities may or may not be intentional but surely occurs. In one study, researchers replied to accounting job openings by sending résumés and cover letters from fictitious candidates; all "candidates" were qualified, but some letters

revealed a disability. The candidates with expressed disabilities were chosen by recruiters 26% less frequently for follow-up than were those with no revealed disability.[186]

The research is quite persuasive that in terms of virtually all work criteria, employees with disabilities are capable workers. Thousands of employers in the United States and elsewhere have found that disabled employees provide an excellent and largely untapped source of competent, efficient labor for jobs ranging from information technology to creative advertising to receptionist.[187]

Employers can do several things to tap this huge potential workforce. The U.S. Department of Labor's Office of Disability Employment Policy offers several programs, including one that helps link disabled college undergraduates who are looking for summer internships with potential employers.[188] All states have local agencies (such as "Corporate Connections" in Tennessee) that provide placement services and other recruitment and training tools and information for employers seeking to hire the disabled. Employers also must use common sense. For example, employers who post job openings only in newspapers may miss potential employees who are visually impaired.[189]

DIVERSITY COUNTS

Guidelines for Reducing Bias in Recruiting

Bias can block employers from finding, contacting, and/or moving ahead with qualified candidates from underrepresented groups. Some examples of how employers address this follow.[190]

COLLEGE RECRUITING SOURCES

Top employers such as Goldman Sachs traditionally recruited candidates from elite colleges and from top analysts who were leaving competitors. Today they're putting more emphasis on campus recruiting, including historically black colleges and women's colleges. For example, Blackstone Group was recently recruiting from about 44 schools, about five times more than a few years ago.[191]

VIRTUAL INTERVIEWS

With more applicants to interview, such employers use *asynchronous video recruiting interviews* (we'll discuss these in Chapter 7), rather than interview all applicants in person. The applicants record their answers at their leisure, and the recruiters review them when they can. That enables employers to interview more applicants, including applicants who must work.

INTERVIEW SCHEDULING

Candidates who work may have less flexibility to accept job interviews during regular business hours. That's another diversity benefit of asynchronous interviews.

WORDING IN JOB DESCRIPTIONS, ADS, AND JOB POSTINGS

Check that the wording in job descriptions, job ads, and job postings is inclusive. For example, use gender-neutral language; separate "required" prerequisites from "preferred" ones; use contemporary terms such as LatinX instead of Hispanic; highlight the careers of current diverse employees; and include people of color in testimonials.

As an example, researchers conducted a study using 329 university students in Germany.[192] The students watched video job ads. Some of the ads used male recruiters, some used female. Some of the ads used what the researchers called masculine phrases (such as, "opportunity *to acquire outstanding competencies* . . . "); others used what they classified as more stereotypically feminine wording such, as "opportunity *to acquire helpful talents* . . . ." If the company recruiter was female, the wording didn't stop women from applying. But when a male recruiter used the "masculine" wording, the female students were less likely to pursue the opportunity. This was apparently because they assumed they'd have less success applying.

THE HIRING TEAM

As in the previous example, role models are important. Having people from underrepresented groups on the hiring team lifts the chances of attracting and recruiting diverse applicants.

JOB SPECIFICATIONS

It's not just the wording, it is the substance of what the recruiter is seeking. For example traits like years of experience or college attended may not only inhibit diversity; they're often worse predictors of performance than are the skills the applicant brings to the job.

IDENTIFYING INFORMATION

Some employers remove identifying information from hiring documents such as resumes.[193] For example names can reveal race and gender, addresses may suggest income, and volunteer work may suggest religion or race. The U.S. Army no longer includes photos in their selection processes.[194] Some recruitment technology (such as that from Hired, and Gapjumpers) hide traits such as names and universities.[195]

ONLINE RECRUITING SOURCES

Recruiters may inadvertently miss good candidates by limiting their online sources to top sites like Indeed and LinkedIn. Many therefore also use specialist recruiters such as www.diversity.com, the National Black MBA Association (Career success.NBMBAA.org/), and www.jopwell.com. ■

LEARNING OBJECTIVE 5-7

Discuss practical guidelines for obtaining application information.

Developing and Using Application Forms

Purpose of Application Forms

application form
The form that provides information on education, prior work record, and skills.

With a pool of applicants, the prescreening process can begin. The **application form** is usually the first step in this process (some firms first require a brief, prescreening interview or online test).

A filled-in application provides four types of information. First, you can make judgments on *substantive matters*, such as whether the applicant has the education and experience to do the job. Second, you can draw conclusions about the applicant's *previous progress* and growth, especially important for management candidates. Third, you can draw tentative conclusions about the applicant's *stability* based on previous work record (although years of downsizing suggest the need for caution here). Fourth, you may be able to use the data in the application to *predict* which candidates will succeed on the job.

Application Guidelines

Ineffective use of the application can cost the employer dearly. Managers should keep several practical guidelines in mind. In the "Employment History" section, request detailed information on each prior employer, including the name of the supervisor and his or her e-mail address and telephone number; this is essential for reference checking. In signing the application, the applicant should certify that falsified statements may be cause for dismissal, that investigation of credit and employment and driving record is authorized, that a medical examination and drug screening tests may be required, and that employment is for no definite period.

Estimates of how many applicants exaggerate their qualifications range from 40% to 78%.[196] One recent estimate, by a reference-checking firm is 78%.[197] The most common problems concern education and job experience. A majority of graduating seniors reportedly believe that employers expect a degree of exaggeration on résumés. Much of this exaggeration occurs on résumés, but may occur on application forms too. Therefore, make sure applicants complete the form and sign a statement on it indicating that the information is true. Courts will almost always support a discharge for falsifying information when applying for work.[198]

Finally, doing a less-than-complete job of filling in the form may reflect poor work habits. Some applicants scribble "see résumé attached" on the application. This is not acceptable. You need the signed, completed form. Some firms no longer ask applicants for résumés at all, but instead request (where permitted) and then peruse web presence links, such as Twitter or LinkedIn accounts.[199]

Most employers need several application forms. For technical and managerial personnel, the form may require detailed answers to questions about education and training. The form for hourly factory workers might focus on tools and equipment.

Know Your Employment Law: Application Forms and EEO Law[200]

Application forms must comply with equal employment laws. Problematical items include the following.

EDUCATION A question on dates of attendance and graduation is a potential violation because it may reveal the applicant's age.

ARREST RECORD The courts have usually held that employers violate Title VII by disqualifying applicants from employment because of an arrest. This item has an adverse impact on minorities, and employers usually can't show it's required as a business necessity.

NOTIFY IN CASE OF EMERGENCY It is generally legal to require the name, address, and phone number of a person to notify in case of emergency. However, asking the relationship of this person could indicate the applicant's marital status or lineage.

MEMBERSHIP IN ORGANIZATIONS Some forms ask to list memberships in clubs, organizations, or societies. Employers should include instructions not to include organizations that would reveal race, religion, physical handicaps, marital status, or ancestry.

PHYSICAL HANDICAPS It is usually illegal to require the listing of an applicant's physical handicaps or past illnesses unless the application blank specifically asks only for those that "may interfere with your job performance." Similarly, it is generally illegal to ask if the applicant has received workers' compensation. Also ensure that the questions are accessible to people with vision impairments and to those whose first language is not English.

MARITAL STATUS In general, the application should not ask whether an applicant is single, married, divorced, separated, or living with anyone, or the names, occupations, and ages of the applicant's spouse or children.

HOUSING Asking whether an applicant *owns, rents*, or *leases* a house may be discriminatory. It can adversely affect minority groups and is difficult to justify on business necessity.

VIDEO RÉSUMÉS Some candidates submit video résumés, a practice replete with benefits and threats. To facilitate using video résumés, several websites compile multimedia résumés for applicants.[201] The danger is that a video makes it more likely that rejected candidates may claim discrimination.[202]

Using Application Forms to Predict Job Performance

Some employers analyze application information ("biodata") to *predict* employee tenure and performance. In one study, the researchers found that applicants who had longer tenure with previous employers were less likely to quit, and also had higher performance within 6 months after hire.[203] Examples of predictive biodata items might include "quit a job without giving notice," "graduated from college," and "traveled considerably growing up."[204]

Choose biodata items with three things in mind. First, equal employment law limits the items you'll want to use (avoid age, race, or gender, for instance). And, noninvasive items are best. In one study, subjects perceived items such as "dollar sales achieved" and "grade point average in math" as not invasive. Items such as "birth order" and "frequent dates in high school" were more invasive. Finally, some applicants will successfully fake biodata answers ("quit my job") to impress the employer.[205]

Mandatory Arbitration

Many employers, aware of the high costs of litigation, require applicants to agree on their applications to mandatory arbitration should a dispute arise. Relevant laws governing such agreements include the Federal Arbitration Act, and various similar state laws.[206]

Different federal courts have taken different positions on the enforceability of such "mandatory alternative dispute resolution" clauses. They are generally enforceable, with two caveats. First, it must be a fair process. For example, the agreement should be a signed and dated separate agreement. Use simple wording. Provide for reconsideration and judicial appeal if there is an error of law. The employer must absorb most of the cost of the arbitration process. The process should be reasonably swift. Employees should be eligible to receive the full remedies they would have had if they had access to the courts.[207]

Second, mandatory arbitration clauses turn some candidates off. In one study some years ago, 389 MBA students read simulated employment brochures. Mandatory employment arbitration had a significantly negative impact on the attractiveness of the company as a place to work.[208]

Building Your Management Skills: The Human Side of Recruiting

In one survey, almost 60% of job seekers said they had a poor applicant experience; the worst feedback came from those who never even heard back from the companies they applied to.[209] (Johnson & Johnson's talent acquisition team is one exception. They send a one-page "Thank you for taking the time to apply" note to all applicants.)[210]

In another study, recruiter incivility hurt job seekers' "self-efficacy"—basically, the person's confidence in his or her ability to get a job. What qualified as "uncivil"? Comments or action that were *dismissive* of the applicant's qualifications (" the recruiter looked at my résumé and said they'd never hire someone like me"); *unresponsive* or untimely communication ("they said they'd get back to me and they never did"); *rude* interactions ("after waiting for my interview for 15 minutes, the interviewer just kept checking her watch while I was talking"); *belittling* ("the interviewer talked down to me in a demeaning tone"); and *rushing* through the interview.[211] Most employers can and should do better.

Chapter Review

Chapter Section Summaries

5-1. Recruitment and selection start with **workforce planning and forecasting.** Workforce planning is the process of deciding what positions the firm will have to fill and how to fill them. This often starts by forecasting personnel needs, perhaps using trend analysis, ratio analysis, scatter plots, or computerized software packages. Next forecast the supply of inside candidates. Here employers use manual systems and replacement charts and computerized skills inventories. Forecasting the supply of outside candidates is important, particularly when good candidates are more difficult to come by.

5-2. Managers need to understand why **effective recruiting is important.** Without enough candidates, employers cannot effectively screen the candidates or hire the best. Some employers use a recruiting yield pyramid to estimate how many applicants they need to generate in order to fill predicted job openings.

5-3. Filling open positions with **internal sources of candidates** has several advantages. You are familiar with their strengths and weaknesses, and they require less orientation. Finding internal candidates often utilizes job posting. For filling the company's projected top-level positions, succession planning—the ongoing process of systematically identifying, assessing, and developing organizational leadership to enhance performance—is the process of choice.

5-4. Workforce plans influence **employee engagement.** For example, plans to develop and retain employees and promote from within tend to foster engagement, while contrary policies may erode it. Recognizing this, at some companies such as FedEx, internal recruiting and promotion from within both play central roles in employee engagement. The promotion-from-within policy includes helping employees identify and develop their promotion potential. It also requires a coordinated system for accessing career records and posting job openings.

5-5. Employers use a variety of **outside sources of candidates** when recruiting applicants. These include recruiting via the Internet, advertising and employment agencies (including public and nonprofit agencies, and private agencies), temporary agencies and other alternative staffing methods, executive recruiters, college recruiting, referrals and walk-ins, and military personnel.

5-6. Understanding how to **recruit a more diverse workforce** is important. Whether the target is the single parent, older workers, or minorities, the basic rule is to understand their special needs and to create a set of policies and practices that create a more hospitable environment in which they can work.

5-7. Employers develop and use application forms to collect essential background information about the applicant. The application should enable you to make judgments on substantial matters such as the person's education and to identify the person's job references and supervisors. Of course, it's important to make sure the application complies with equal employment laws, for instance, with respect to questions regarding physical handicaps.

Discussion Questions

5-1. Briefly outline the workforce planning process.

5-2. Briefly explain each step in the recruitment and selection process.

5-3. What are the four main types of information that application forms provide?

5-4. How, specifically, do equal employment laws apply to personnel recruiting activities?

5-5. What are five main things you would do to recruit and retain a more diverse workforce?

Individual and Group Activities

5-6. Bring to class several classified and display ads from the web or the Sunday help wanted ads. Analyze the effectiveness of these ads using the guidelines discussed in this chapter.

5-7. Working individually or in groups, develop a 5-year forecast of occupational market conditions for five occupations such as accountant, nurse, and engineer.

5-8. Working individually or in groups, visit the local office of your state employment agency (or check out its site online). Come back to class prepared to discuss the following questions: What types of jobs seem to be available through this agency, predominantly? To what extent do you think this particular agency would be a good source of professional, technical, and/or managerial applicants? What sorts of paperwork are applicants to the state agency required to complete before their applications are processed by the agency? What other services does the office provide? What other opinions did you form about the state agency?

5-9. Working individually or in groups, find at least five employment ads, either on the Internet or in a local newspaper, that suggest that the company should appeal to women, older workers, members of underrepresented groups, and single parents. Discuss what the firm is doing to make you think that.

5-10. Working individually or in groups, interview a manager between the ages of 25 and 35 at a local business who manages employees age 40 or

older. Ask the manager to describe three or four of his or her most challenging experiences managing older employees.

5-11. The HRCI Exam Content Outline Website https://www.hrci.org/docs/default-source/web-files/phr-exam-content-outline.pdf?sfvrsn=13c44f61_28 lists the knowledge someone studying for the HRCI PHR certification exam needs to have in each area of human resource management (such as in Business Management, and in Talent Planning and Acquisition.[i] In groups of several students, do four things: (1) review the Exam Content Outline on that Website; (2) identify the material in this chapter that relates to the Exam Content Outline's required "Knowledge Of" lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.

Experiential Exercise

The Nursing Shortage

Written and copyrighted by Gary Dessler, PhD.

As of August 2022, U.S. unemployment was quite low, and that was doubly the case for nurse professionals. Virtually every hospital was aggressively recruiting nurses. Many were turning to foreign-trained nurses, for example, by recruiting nurses in the Philippines. Experts expect nurses to be in very short supply for years to come.

Purpose: The purpose of this exercise is to give you experience in creating a recruitment program.

Required Understanding: You should be thoroughly familiar with the contents of this chapter, and with the nurse recruitment program of a hospital such as Mt. Sinai Hospital in New York (see https://careers.mountsinai.org/).[212]

How to Set Up the Exercise/Instructions: Set up groups of four to five students for this exercise. The groups should work separately and should not converse with each other. Each group should address the following tasks:

5-12. Based on information available on the hospital's website, create a hard-copy ad for the hospital to place in the Sunday edition of *The New York Times*. Which (geographic) editions of the *Times* would you use, and why?

5-13. Analyze the hospital's current online nurses' ad. How would you improve on it?

5-14. Prepare in outline form a complete nurses' recruiting program for this hospital, including all recruiting sources your group would use.

Application Case

Techtonic Group

Written and copyrighted by Gary Dessler, PhD.

It's been estimated that there are more than 600,000 unfilled technical jobs (systems engineers, programmers, and so on) in the United States.[213] Therefore, IT companies like Techtonic Group are continually battling for good applicants.

For many years, Techtonic outsourced app software development to Armenia; CEO Heather Terenzio flew twice a year to work with the people there. However, programmers' salaries in Eastern Europe were rising, and the distances involved and the language differences complicated managing the projects. Therefore, the CEO decided there had to be a better way. Because the programmers abroad required more and more detailed instructions, she decided she could hire junior people closer to home. Then with about the same effort and instructions Techtonic could do its programming locally.

The problem was, how do you recruit talent when the unemployment rate for tech workers is close to zero? Ms. Terenzio had a novel solution. Rather than looking for college graduates with technical degrees, Techtonic set up a training/apprenticeship program. The aim was to attract people who didn't necessarily have college degrees but who expressed a strong desire for doing programming. People apply for the five-week program at "Techtonic Academy," where they learn basic computer coding skills. Some of the graduates then qualify for an eight-month paid apprenticeship at Techtonic, where they learn software development.

The program is successful. They usually get about 400 applicants for each of the 15 spots in each five-week Academy program. The city of Boulder helps subsidize the program, and the applicants don't pay for classes. The company is now expanding its academy/apprenticeship programs to other U.S. cities.

Questions

5-15. Specifically, what recruiting sources would you use to attract participants to the Techtonic Academy and apprenticeship programs?

5-16. What other recruitment sources (other than the academy and apprenticeship programs) would you recommend Techtonic use, and why?

5-17. What suggestions would you make to Techtonic for improving its recruiting processes?

Continuing Case

Carter Cleaning Company

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Getting Better Applicants

If you were to ask Jennifer and her father what the main problem was in running their firm, their answer would be quick and short: hiring good people. Originally begun as a string of coin-operated laundromats requiring virtually no skilled help, the chain grew to six stores, each heavily dependent on skilled managers, cleaner/spotters, and pressers. Employees generally have no more than a high school education, and the market for them is very competitive. Over a typical weekend, literally dozens of want ads for experienced pressers or cleaner/spotters can be found in area newspapers. All these people usually are paid around $15 per hour, and they change jobs frequently. Jennifer and her father thus face the continuing task of recruiting and hiring qualified workers out of a pool of individuals they feel are almost nomadic in their propensity to move from area to area and job to job. Turnover in their stores (as in the stores of many of their competitors) often approaches 400%. "Don't talk to me about human resources planning and trend analysis," says Jennifer. "We're fighting an economic war, and I'm happy just to be able to round up enough live applicants to be able to keep my trenches fully manned."

In light of this problem, Jennifer's father asked her to answer the following questions:

Questions

5-18. First, how would you recommend we go about reducing the turnover in our stores?

5-19. Provide a detailed list of recommendations concerning how we should go about increasing our pool of acceptable job applicants so we no longer face the need to hire almost anyone who walks in the door. (Your recommendations regarding the latter should include completely worded online and hard-copy advertisements and recommendations regarding any other recruiting strategies you would suggest we use.)

Translating Strategy into HR Policies and Practices Case*,§

**The overall map on the inside back cover of this text outlines the relationships involved.*

Improving Performance at the Hotel Paris

The New Recruitment Process

The Hotel Paris's competitive strategy is "to use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy and boost performance, by eliciting the required employee behaviors and competencies.

As a longtime HR professional, Lisa Cruz was well aware of the importance of effective employee recruitment. If the Hotel Paris didn't get enough applicants, it could not be selective about who to hire. And, if it could not be selective about who to hire, it wasn't likely that the hotels would enjoy the customer-oriented employee behaviors that the company's strategy relied on. She was therefore disappointed to discover that the Hotel Paris was paying virtually no attention to the job of recruiting prospective employees. Individual hotel managers slapped together help wanted ads when they had positions to fill, and no one in the chain had any measurable idea of how many recruits these ads were producing or which recruiting approaches worked the best (or worked at all). Lisa knew that it was time to step back and get control of the Hotel Paris's recruitment function.

As they reviewed the details of the Hotel Paris's current recruitment practices, Lisa Cruz and the firm's CFO became increasingly concerned. What they found, basically, was that the recruitment function was totally unmanaged. The previous HR director had simply allowed the responsibility for recruiting to remain with each separate hotel, and the hotel managers, not being HR professionals, usually just took the path of least resistance when a job became available by placing help wanted ads in their local papers. There was no sense of direction from the Hotel Paris's headquarters regarding what sorts of applicants the company preferred, what media and alternative sources of recruits its managers should use, no online recruiting, and, of course, no measurement at all of effectiveness of the recruitment process. The company totally ignored recruitment-source metrics that other firms used effectively, such as number of qualified applicants per position, percentage of jobs filled from within, the offer-to-acceptance ratio, acceptance by recruiting source, turnover by recruiting source, and selection test results by recruiting source. This despite the fact, as the CFO put it, "that high-performance companies consistently score much higher than low-performing firms on HR practices such as number of qualified applicants per position, and percentage of jobs filled from within."

It was safe to say that achieving the Hotel Paris's strategic aims depended largely on the quality of the people who it attracted to, and then selected for, employment at the firm. "What we want are employees who will put our guests first, who will use initiative to see that our guests are satisfied, and who will work tirelessly to provide our guests with services that exceed their expectations," said the CFO. Lisa and the CFO both knew this process had to start with better recruiting. The CFO gave her the green light to design a new recruitment process.

Lisa and her team had the firm's IT department create a central recruiting link for the Hotel Paris's website, with geographical links that each local hotel could use to publicize its openings. The HR team created a series of standard ads the managers could use for each job title. These standard ads emphasized the company's service-oriented values, and basically said (without actually saying it) that if you were not people oriented you should not apply. They emphasized what it was like to work for the Hotel Paris, and the excellent benefits (which the HR team was about to get started on) the firm provided. It created a new intranet-based job posting system and encouraged employees to use it to apply for open positions. For several jobs, including housekeeping crew and front-desk clerk, applicants must now first pass a short prescreening test to apply. The HR team analyzed the performance (for instance, in terms of applicants/source and applicants

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hired/source) of the various local newspapers and recruiting firms the hotels had used in the past, and chose the best to be the approved recruiting sources in their local areas.

After 6 months with these and other recruitment function changes, the number of applicants was up on average 40%. Lisa and her team were now set to institute new screening procedures that would help them select the high-commitment, service-oriented, motivated employees they were looking for.

Questions

5-20. Given the hotel's required personnel skills, what recruiting sources would you have suggested it use, and why?
5-21. What would a Hotel Paris help wanted ad look like?
5-22. Based on what you know and on what you learned in this chapter of Dessler, *Human Resource Management*, how would you suggest Hotel Paris measure the effectiveness of its recruiting efforts?

Writing Assignments

5-23. What are the pros and cons of five sources of job candidates?
5-24. As explained in this chapter, technology is in many ways revolutionizing how employers recruit for employees. You manage a small women's clothing store and need to hire an assistant manager. How would you use social media to recruit candidates?

Key Terms

workforce (or employment or personnel) planning, 123
trend analysis, 124
ratio analysis, 125
scatter plot, 125
personnel replacement charts, 126
position replacement card, 126
succession planning, 128
employee recruiting, 129
recruiting yield pyramid, 130
job posting, 131
applicant tracking systems (ATSs), 133
on-demand recruiting services (ODRS), 137
alternative staffing, 137
college recruiting, 142
application form, 147

Endnotes

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6 Employee Testing and Selection

WHERE ARE WE NOW . . .

Chapter 5 addressed building applicant pools. The purpose of Chapter 6 is to explain how to use various tools to select the best candidate for the job. The main topics we'll cover include **Why Employee Selection is Important; The Basics of Testing and Selecting Employees; Types of Tests; Work Samples and Simulations;** and **Background Investigations and other Selection Methods**. In Chapter 7, we will turn to techniques you can use to improve your skills at what is probably the most widely used screening tool, the selection interview.

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

6-1 **Answer** the question: Why is it important to test and select employees?

6-2 **Explain** what is meant by reliability and validity.

6-3 **List** and briefly describe the basic categories of selection tests, with examples.

6-4 **Explain** how to use two work simulations for selection.

6-5 **Describe** four ways to improve an employer's background checking process.

Earnest had mixed feelings when Google's recruiter said they wanted to see him about a job. The Google job was his top choice. But he had heard about how rigorous their hiring process was, and about the infamous Google "brainteaser" puzzle questions candidates had to navigate. So he entered the hiring process with both enthusiasm and trepidation. We'll see what happened.

LEARNING OBJECTIVE 6-1

Answer the question: Why is it important to test and select employees?

Why Employee Selection Is Important

After reviewing the applicants' résumés, the manager turns to selecting the best candidate for the job. This usually means using the screening tools we discuss in this and the following chapter: tests, assessment centers, interviews, and background and reference checks.[1] (The employer may first prescreen applicants to reduce the candidate pool, for instance by using an applicant tracking system, as noted in Chapter 5.) The aim of employee selection is to achieve *person–job fit*. This means matching the knowledge, skills, abilities, and other competencies (KSACs) that are required for performing the job (based on job analysis) with the applicant's KSACs.

Of course, a candidate might be "right" for a job, but wrong for the organization.[2] For example, an experienced airline pilot might excel at American Airlines but perhaps not at Southwest, where the organizational values require that all employees help out, even with baggage handling. So, while person–job fit is usually the main consideration, *person–organization fit* is important too.

In any case, selecting the right person is crucial for several reasons. ***First***, employees with the right skills will perform better for you and the company. Those without these skills or who are abrasive or obstructionist won't perform effectively, and your own performance and the firm's will suffer. The bad apple on a team will diminish its morale and engagement, along with its efforts.[3] The time to screen out undesirables is before they are in the door.

Second, effective selection is important because it is costly to recruit and hire employees. One survey found that the average cost of hiring an employee who doesn't work out is about $50,000.[4] Testing can help: in one call center, the 90-day employee attrition rate fell from 41% to 12% after testing began.[5]

Third, inept hiring has equal rights consequences. Equal employment laws require nondiscriminatory selection procedures.[6] And, as we will see, careless testing and selection procedures are susceptible to bias.

negligent hiring
Hiring workers with questionable backgrounds without proper safeguards.

Fourth, flawed selection can have other legal consequences. For example, **negligent hiring** means hiring employees with criminal records or other problems who then use access to customers' homes or similar opportunities to commit crimes.[7] In one case, an apartment manager entered a woman's apartment and assaulted her.[8] The court found the apartment complex's owner negligent for not checking the manager's background properly.[9] Such suits are rising.[10]

LEARNING OBJECTIVE 6-2

Explain what is meant by reliability and validity.

The Basics of Testing and Selecting Employees

As with most personnel functions, technology (including *machine learning*) is changing how employers select employees. In this chapter, we'll discuss a variety of popular selection tools, starting with tests. A *test* is basically a sample of a person's behavior. Any test or screening tool has two important characteristics, *reliability* and *validity*. We'll start with the former.

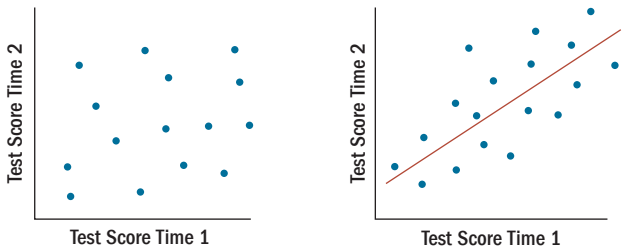
Reliability

reliability
The consistency of scores obtained by the same person when retested with the identical tests or with alternate forms of the same test.

Reliability is a selection tool's first requirement and refers to its consistency: "A reliable test is one that yields consistent scores when a person takes two alternate forms of the test or when he or she takes the same test on two or more different occasions."[11] If a person scores 90 on an intelligence test on a Monday and 130 when retested on Tuesday, you probably wouldn't have much faith in the test.

You can measure reliability in several ways. One is to administer a test to a group one day, re-administer the same test several days later to the same group, and then correlate the first set of scores with the second (called *test-retest reliability estimates*).[12] Or you could administer a test and then administer what experts believe to be an equivalent test later; this would be an *equivalent or alternate form estimate*. (The Scholastic Assessment Test [SAT] is one example.) Or, compare the test taker's answers to certain questions on the test with his or her answers to a separate set of questions aimed at

FIGURE 6-1 Test Score Correlation Examples



measuring the same thing on the same test. This is an *internal comparison estimate*. For example, a psychologist includes 10 items on a test believing that they all measure interest in working outdoors. The psychologist then determines the degree to which responses to these 10 items vary together.

Many things cause a test to be unreliable. These include physical conditions (quiet one day, noisy the next), differences in the test taker (healthy one day, sick the next), and differences in test administration (courteous one day, curt the next). Or the questions may do a poor job of sampling the material; for example, test one focuses more on Chapters 1 and 3, while test two focuses more on Chapters 2 and 4.

Reliability Coefficient

Because measuring reliability generally involves comparing two measures that assess the same thing, it is typical to judge a test's reliability in terms of a *reliability coefficient*. This basically shows the degree to which the two measures (say, test score one day and test score the next day) are correlated.

Figure 6-1 illustrates correlation. In both the left and the right scatter plots, the psychologist compared each applicant's time 1 test score (on the *x*-axis) with his or her subsequent (time 2) test score (on the *y*-axis). On the left, the scatter plot points (each point showing one applicant's test score and subsequent test score) are dispersed. There seems to be no correlation between test scores obtained at time 1 and at time 2. On the right, the psychologist tried a new test. Here the resulting points fall in a predictable pattern. This suggests that the applicants' test scores correlate closely with their previous scores.

Validity

Reliability, while indispensable, tells you only that the test is measuring something consistently. *Validity* tells you whether the test is measuring what you think it's supposed to be measuring.[13] **Test validity** answers the question "Does this test measure what it's supposed to measure?" Put another way, it refers to the correctness of the inferences that we can make based on the test.[14] For example, if Jane's scores on mechanical comprehension tests are higher than Jim's, can we be sure that Jane possesses more mechanical comprehension than Jim?[15] With employee selection tests, *validity* often refers to evidence that the test is job related—in other words, that performance on the test accurately predicts job performance. A selection test must be valid because, without proof of validity, there is no logical or (under EEO law) legally permissible reason to use it to screen job applicants.

test validity
The accuracy with which a test, interview, and so on, measures what it purports to measure or fulfills the function it was designed to fill.

A test, as we said, is a sample of a person's behavior, but some tests are more clearly representative of the behavior being sampled than others. A swimming test clearly corresponds to a lifeguard's on-the-job behavior. On the other hand, there may be no apparent relationship between the test and the behavior. Thus, in Figure 6-2, the psychologist asks the person to interpret the picture, and then draws conclusions about the person's personality and behavior. Here it is more difficult to prove that the test is measuring what it is said to measure, in this case, some aspect of the person's personality—in other words, to show that the test is valid.

There are several ways to demonstrate a test's validity.[16]

criterion validity
A type of validity based on showing that scores on the test (predictors) are related to job performance (criterion).

Criterion validity involves demonstrating statistically a relationship between scores on a selection procedure and the job performance of a sample of workers.

FIGURE 6-2 A Slide from the Rorschach Test

For example, it involves demonstrating that those who do well on the test also do well on the job, and that those who do poorly on the test do poorly on the job. The test has validity to the extent that the people with higher test scores perform better on the job. In psychological measurement, a *predictor* is the measurement (in this case, the test score) that you are trying to relate to a *criterion*, such as performance on the job. The term *criterion validity* reflects that terminology.

content validity
A test that is content valid is one that contains a fair sample of the tasks and skills actually needed for the job in question.

Content validity is a demonstration that the content of a selection procedure is representative of important aspects of performance on the job. For example, employers may demonstrate the *content validity* of a test by showing that the test constitutes a fair sample of the job's content. The basic procedure here is to identify job tasks that are critical to performance, and then randomly select a sample of those tasks to test. In selecting students for dental school, one might give applicants chunks of chalk, and ask them to carve something like a tooth. If the content you choose for the test is a representative sample of the job, then the test is probably content valid. Clumsy dental students need not apply. Subject matter experts (SMEs, such as practicing dentists) help choose the tasks.

construct validity
A test that is construct valid is one that demonstrates that a selection procedure measures a construct and that construct is important for successful job performance.

Finally, **construct validity** means demonstrating that (1) a selection procedure measures a construct (an abstract idea such as morale or honesty) and (2) that the construct is important for successful job performance.

Invalid tests are more than a waste of time. They can result in hiring the wrong people, and to rejecting people—including those from underrepresented groups—who were actually qualified for the jobs.

Tests you buy "off the shelf" should include validity information.[17] But ideally, you should revalidate the tests for the job(s) at hand. In any case, tests rarely predict performance with 100% accuracy (or anywhere near it). Therefore, don't make tests your only selection tool; also use other tools like interviews and background checks.

How to Validate a Test

Employers often opt to demonstrate evidence of a test's validity using criterion validity. Here, in order for a selection test to be useful, you need evidence that scores on the test relate in a predictable way to performance on the job. Thus, other things being equal, students who score high on the graduate admissions tests also do better in graduate

school. Applicants who score high on mechanical comprehension tests perform better as engineers. In other words, you validate the test before using it by ensuring that scores on the test are a good predictor of some *criterion* like job performance—thereby demonstrating the test's *criterion validity*.[18]

An industrial psychologist usually conducts the validation study. The human resource department coordinates the effort. Strictly speaking, the supervisor's role is just to make sure that the job's human requirements and performance standards are clear to the psychologist. But in practice, anyone using tests (or test results) should know something about validation. Then you can better understand how to use tests and interpret their results. The validation process consists of five steps (as in Figure 6-3).

Many psychological tests are scored online or using interpretive software; other tests specially trained psychologists must score manually. However, managers themselves can easily score many tests, like the Wonderlic Personnel Test, manually.

Bias

Most employers know they shouldn't use biased tests in the selection process.[19] For example, a particular IQ test may provide a valid measure of cognitive ability for middle-class Whites but not for some minorities, if the score depends on familiarity with certain aspects of middle-class culture. For many years many industrial psychologists believed they were adequately controlling test bias, but experts have questioned that.[20] Employers should therefore redouble their efforts to ensure that the tests they're using aren't producing biased decisions. For example, a particular IQ test may provide a valid measure of cognitive ability for middle-class people but not for others.[21]

Utility Analysis

Knowing that a test predicts performance isn't always enough. For example, if it's going to cost the employer $1,000 per applicant for the test, and hundreds of applicants must be tested, the cost of the test may exceed the benefits.

Answering the question, "Does it pay to use the test?" requires *utility analysis*. Two selection experts say, "Using dollar and cents terms, [utility analysis] shows the degree to which use of a selection measure improves the quality of individuals selected over what would have happened if the measure had not been used."[22] The information required for utility analysis generally includes, for instance, the validity of the selection measure, a measure of job performance in dollars, applicants' average test scores, cost of testing an applicant, and the number of applicants tested and selected. The accompanying HR as a Profit Center discussion shows how tests can improve performance.

HR AS A PROFIT CENTER

Using Tests to Cut Costs and Boost Profits

Financial services firm Key Bank wanted a better way to screen and select tellers and call-center employees.[23] The company calculated it cost about $10,000 to select and train an employee, but it was losing 13% of new tellers and call-center employees within the first 90 days. That turnover number dropped to 4% after Key Bank implemented a computerized *virtual job tryout candidate assessment screening tool*. It requires candidates to respond to realistic situations, such as impatient customers. "We calculated a $1.7 million cost savings in teller turnover in one year, simply by making better hiring decisions, reducing training costs, and increasing quality of hires," said the firm's human resources director. ■

FIGURE 6-3 Steps in Validating a Test

STEP 1: ANALYZE THE JOB First analyze the job, and write job descriptions and job specifications. The aim is to identify the traits and skills required for job performance. These requirements become your *predictors*. They are the human traits and skills you believe predict success on the job. For an assembler, *predictors* might include manual dexterity and patience.[i] Predictors to select future police officers include flexibility of closure (using patterns to identify a face in the crowd); reading comprehension, and various physical tests, such as weaving through traffic cones as if pursuing a suspect.[ii]

In this first step, also define "success on the job," since it is this success for which you want predictors. The standards of success are called *criteria*. You could use production-related criteria (quantity, quality, and so on); personnel data (absenteeism, length of service, and so on); or worker performance (reported by supervisors).

STEP 2: CHOOSE THE TESTS Once you know the predictors (such as manual dexterity), the next step is to decide how to test for them. Employers usually base this choice on experience, previous research, and "best guesses." They usually don't start with just one test. Instead, they choose several tests and combine them into a test battery. The test battery aims to measure several possible predictors, such as aggressiveness, extroversion, and numerical ability.

What tests are available, and where do you get them? Ideally, use a professional, such as an industrial psychologist. However, many firms publish tests.[iii] Some tests are available to virtually any purchaser, others only to qualified buyers (such as those with advanced degrees in psychology). You can find information on available tests at *buros.org*.[iv] Numerous vendors, such as HRdirect, offer employment testing materials, such as a clerical skills test, and sales abilities test.[v]

STEP 3: ADMINISTER THE TEST Next, administer the selected test(s). One option is to administer the tests to employees currently on the job. You then compare their test scores with their current performance; this is *concurrent (at the same time) validation*. Its advantage is that data on performance are readily available. The disadvantage is that current employees may not be representative of new applicants (who are really the ones for whom you are interested in developing a screening test). Current employees have already had on-the-job training, for instance.

Predictive validation is the second and more dependable way to validate a test. Here you administer the test to applicants before you hire them, then hire these applicants using only existing selection techniques, *not* the results of the new tests. After they've been on the job for some time, measure their performance, and compare it to their earlier test scores. You can then determine whether you could have used their performance on the new test to predict their subsequent job performance.

STEP 4: RELATE YOUR TEST SCORES AND CRITERIA Next, ascertain if there is a significant relationship between test scores (the predictor) and performance (the criterion). The usual method is to measure the statistical relationship between (1) scores on the test and (2) job performance, using *correlation analysis*, which shows the degree of statistical relationship.

(*Continued*)

[i] Murphy and Davidshofer, *Psychological Testing*, p. 73. See also Chad Van Iddekinge and Robert Ployhart, "Developments in the Criterion-Related Validation of Selection Procedures: A Critical Review and Recommendations for Practice," *Personnel Psychology* 60, no. 1 (2008), pp. 871–925.

[ii] "What to know about the psychological screening for police officers," www.thebalancecareers.com.

[iii] Psychological Assessment Resources, Inc., in Odessa, Florida, is typical.

[iv] http://buros.org/tests-reviewed-mental-measurements-yearbook-series, accessed March1, 2022.

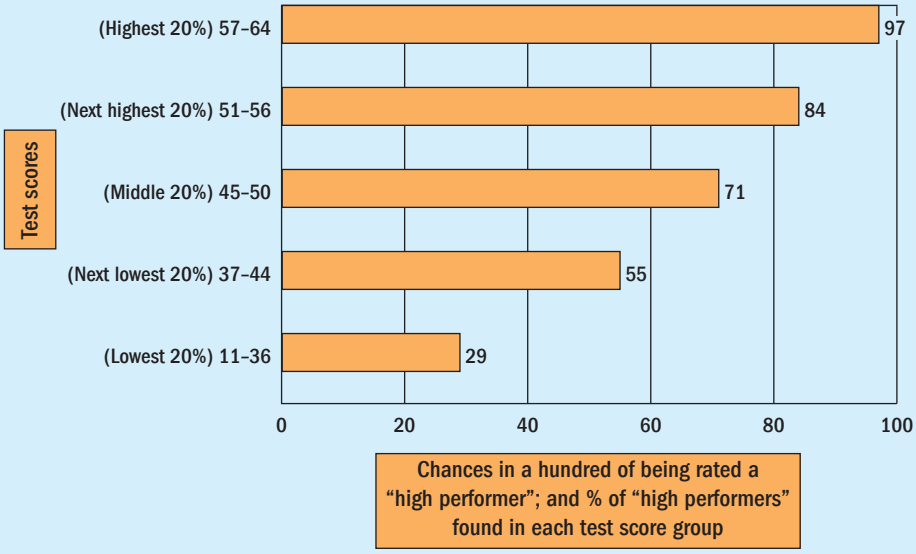
[v] https://www.hrdirect.com/job-skills-aptitude-tests, accessed March 1, 2022.

FIGURE 6-3 ***Continued***

expectancy chart
A graph showing the relationship between test scores and job performance for a group of people.

If there is a correlation between test and job performance, you can develop an **expectancy chart**. This presents the relationship between test scores and job performance graphically. To do this, split the employees into, say, five groups according to test scores, with those scoring the highest fifth on the test, the second highest fifth, and so on. Then compute the percentage of high job performers in each of these five test score groups, and present the data in an expectancy chart like this:

Expectancy Chart



Note: This expectancy chart shows the relation between scores made on the Minnesota Paper Form Board and rated success of junior draftspersons. In this case, someone scoring in the top fifth of the test has a 97% chance of being a high performer, while one scoring in the lowest fifth has only a 29% chance of being a high performer.[vi]

STEP 5: **CROSS-VALIDATE AND REVALIDATE** Before using the test, you may want to check it by "cross-validating"—in other words, by again performing steps 3 and 4 on a new sample of employees. At a minimum, revalidate the test periodically.

Validity Generalization

Many employers won't find it cost-effective to conduct validity studies for the selection tools they use. These employers must find tests and other screening tools that have been shown to be valid in other settings (companies), and then bring them in-house in the hopes that they'll be valid there, too.[24]

If the test is valid in one company, to what extent can we generalize those validity findings to our own company? *Validity generalization* "refers to the degree to which evidence of a measure's validity obtained in one situation can be generalized to another situation without further study."[25] Factors to consider include

[vi] Experts sometimes have to develop separate expectancy charts and cutting points for minorities and nonminorities if the validation studies indicate that high performers from either group (minority or nonminority) score lower (or higher) on the test.

existing validation evidence regarding using the test for various specific purposes; the similarity of the subjects with those in your organization; and the similarity of the jobs.[26]

Under the Uniform Guidelines, validation of selection procedures is desirable, but "the Uniform Guidelines require users to produce evidence of validity only when adverse impact is shown to exist. If there is no adverse impact, there is no validation requirement under the Guidelines."[27]

Know Your Employment Law: Testing and Equal Employment Opportunity

Suppose a plaintiff shows that one of your selection procedures has an adverse impact on his or her protected class. If so, you may have to demonstrate the validity and selection fairness of the allegedly discriminatory test or item. With respect to testing, the EEO laws boil down to two things: (1) You must be able to prove that your tests are related to success or failure on the job, and (2) you must prove that your tests don't unfairly discriminate against either minority or nonminority subgroups.[28] (Note that the same burden of proving job relatedness falls on interviews and other techniques, including performance appraisals, that falls on tests.)

Test Takers' Individual Rights and Test Security

Test takers have rights to privacy and feedback under the American Psychological Association's (APA) standard for educational and psychological tests. These guide psychologists but are *not* legally enforceable. Test takers have rights such as:

- To the confidentiality of test results.
- To informed consent regarding use of these results.
- To expect that only people qualified to interpret the scores will have access to them, or that sufficient information will accompany the scores to ensure their appropriate interpretation.
- To expect the test is fair. For example, no test taker should have prior access to the questions or answers.[29]

The Federal Privacy Act gives federal employees the right to inspect their personnel files and limits the disclosure of personnel information without the employee's consent, among other things.[30] Furthermore, common law provides employees some protection against disclosing information about them to people outside the company. The main implication here involves defamation (either libel or slander), but there are privacy issues, too.[31] The bottom line is this:

1. Make sure you appreciate the need to keep employees' information confidential.
2. Adopt a "need to know" policy. For example, if an employee has been rehabilitated after a period of drug use, the new supervisor may not "need to know."

How Do Employers Use Tests at Work?

About 80% of the biggest U.S. employers now use testing.[32] To see what such tests are like, try the short test in Figure 6-4.

Tests are not just for lower-level workers. In general, as work demands increase (in terms of skill requirements, training, and pay), employers tend to rely more on selection testing.[33] And, employers don't use tests just to find good employees, but to screen out bad ones. For good reason: retailers reportedly lose as much as $50 billion to employee theft each year, (although testing is best combined with background and credit checks, and other steps, to address this problem).[34]

Many employers administer online employment tests to job candidates.

Gorodenkoff/Shutterstock

FIGURE 6-4 Sample Test

Source: Based on a sample selection test from *The New York Times*.

CHECK YES OR NO	YES	NO
1. You like a lot of excitement in your life.		
2. An employee who takes it easy at work is cheating on the employer.		
3. You are a cautious person.		
4. In the past three years you have found yourself in a shouting match at school or work.		
5. You like to drive fast just for fun.		

Analysis: According to John Kamp, an industrial psychologist, applicants who answered no, yes, yes, no, no to questions 1, 2, 3, 4, and 5 are statistically likely to be absent less often, to have fewer on-the-job injuries, and, if the job involves driving, to have fewer on-the-job driving accidents. Actual scores on the test are based on answers to 130 questions.

HR in Action at the Hotel Paris As she considered what to do next to improve the employees' performance in a way that would support the Hotel Paris's strategy, Lisa Cruz, the Hotel Paris's HR director, knew that employee selection had to play a role. The Hotel Paris currently had an informal screening process in which local hotel managers obtained application forms, interviewed applicants, and checked their references. To see how she improved their system, see the case at the end of this chapter.

LEARNING OBJECTIVE 6-3

List and briefly describe the basic categories of selection tests, with examples.

Types of Tests

We can conveniently classify tests according to whether they measure cognitive (mental) abilities, motor and physical abilities, personality and interests, or achievement.[35] We'll look at each.

Tests of Cognitive Abilities

Cognitive tests include tests of general reasoning ability (intelligence) and tests of specific mental abilities like memory and inductive reasoning.

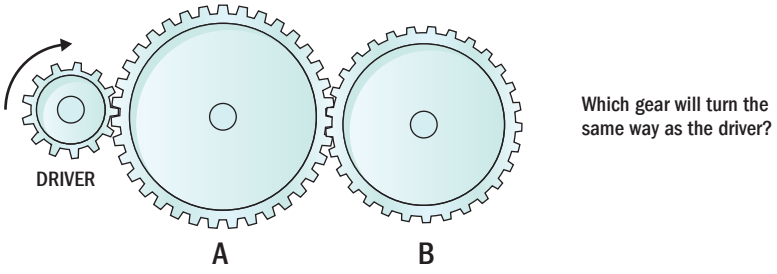
INTELLIGENCE TESTS Intelligence (IQ) tests are tests of general intellectual abilities. They measure not a single trait but rather a range of abilities, including memory, vocabulary, verbal fluency, and numerical ability. An adult's IQ score is a "derived" score; it reflects the extent to which the person is above or below the "average" adult's intelligence score.

Intelligence is often measured with individually administered tests like the Wechsler Adult Intelligence Scale. Employers can administer other IQ tests, such as the Wonderlic, individually or to groups of people.[36] In one illustrative study of firefighter trainees' performance over 23 years, the researchers found that a measure of general intellectual ability and a physical ability assessment were highly predictive of trainee performance.[37]

SPECIFIC COGNITIVE ABILITIES There are also measures of specific mental abilities, such as deductive reasoning, verbal comprehension, memory, and numerical ability.

Psychologists often call such tests *aptitude tests*, since they purport to measure aptitude for the job in question. Consider the Test of Mechanical Comprehension illustrated in Figure 6-5, which tests applicants' understanding of basic mechanical principles. This may reflect a person's aptitude for jobs—like that of machinist or engineer—that require mechanical comprehension. Other tests of mechanical aptitude include the Mechanical Reasoning Test and the SRA Test of Mechanical Aptitude.

FIGURE 6-5 Type of Question Applicant Might Expect on a Test of Mechanical Comprehension



Tests of Motor and Physical Abilities

You might also want to measure motor abilities, such as finger dexterity, manual dexterity, and (if hiring pilots) reaction time. Thus, the Crawford Small Parts Dexterity Test measures the speed and accuracy of simple judgment, as well as the speed of finger, hand, and arm movements.

Tests of *physical* abilities may also be required. These include static strength (such as lifting weights), dynamic strength (pull-ups), body coordination (jumping rope), and stamina (cardiovascular endurance and aerobic capacity, such as climbing stairs). Applicants for the U.S. Marines must pass its Initial Strength Test (3 pull-ups, 45 ammo can lifts, 44 crunches in 2 minutes, and a 1.5-mile run in 13:30).[38]

(Note that the Americans with Disabilities Act precludes employers from using " . . . employment tests that screen out or tend to screen out an individual with a disability or a class of individuals with disabilities unless the test, as used by the employer, is shown to be job-related and consistent with business necessity.")[39]

Measuring Personality and Interests

A person's cognitive and physical abilities alone seldom explain his or her job performance. As one consultant put it, most people are hired based on qualifications, but are fired because of attitude, motivation, and temperament.[40]

Personality tests measure basic aspects of an applicant's personality. Industrial psychologists often focus on the "big five" personality dimensions: extraversion, emotional stability/neuroticism, agreeableness, conscientiousness, and openness to experience.[41]

> Neuroticism represents a tendency to exhibit poor emotional adjustment and experience negative effects, such as anxiety, insecurity, and hostility. Extraversion represents a tendency to be sociable, assertive, active, and to experience positive effects, such as energy and zeal. Openness to experience is the disposition to be imaginative, nonconforming, unconventional, and autonomous. Agreeableness is the tendency to be trusting, compliant, caring, and gentle. Conscientiousness is comprised of two related facets: achievement and dependability.[42]

Some personality tests are *projective*. The psychologist presents an ambiguous stimulus (like an inkblot or clouded picture), and the person reacts. The person supposedly projects into the ambiguous picture his or her attitudes, such as insecurity. Other projective techniques include Make a Picture Story (MAPS) and the Forer Structured Sentence Completion Test.

Other personality tests are *self-reported*: applicants fill out test forms. Thus, available online,[43] the Myers-Briggs test provides a personality type classification useful for decisions such as career selection and planning. Similarly the DISC Profile learning instrument enables the user to gain insight into his or her behavioral style.[44]

Personality test results do often correlate with job performance. For example, "in personality research, conscientiousness has been the most consistent and universal predictor of job performance."[45] Neuroticism is negatively related to motivation and to job engagement.[46] Extroversion correlates with success in sales, management, and expatriate jobs.[47] Emotional stability, extroversion, and agreeableness predicted whether expatriates would leave their overseas assignments early. In one survey, 32% of employers used personality tests for selecting executives, 28% for middle managers, and 17% for hourly workers.[48]

There are several personality test caveats:

> *First,* projective personality tests are difficult to interpret and score; it usually requires an expert to analyze test takers' responses and infer their personalities.
>
> *Second,* for this and other reasons, personality tests can trigger legal challenges.[49]
>
> *Third,* experts debate whether self-report personality tests suffer from low validity.[50]
>
> *Fourth*, people can and will fake responses to personality and integrity tests.[51] The bottom line: make sure the personality tests you use predict performance for the jobs you are testing for.

interest inventory
A personal development and selection device that compares the person's current interests with those of others now in various occupations so as to determine the preferred occupation for the individual.

INTEREST INVENTORIES **Interest inventories** compare one's interests with those of people in various occupations. Thus, the Strong Interest Inventory provides a report comparing one's interests to those of people already in occupations like accounting or engineering. Someone taking the Self-Directed Search (SDS) (www.self-directed-search.com) uses it to identify likely high-fit occupations. The assumption is that someone will do better in occupations in which the person is interested, and indeed such inventories can predict employee performance and turnover.[52] Poor fit frustrates workers.[53]

HR Practices Around The Globe: Testing for Assignments Abroad[54]

Successfully working abroad requires some special talents. Not everyone can easily adapt to being far from home, and to dealing with colleagues with different cultural values. Doing so requires adaptability and interpersonal skills.[55]

Employers often use special inventories such as the Global Competencies Inventory (GCI) here. It assesses three aspects of adaptability.

- The Perception Management Factor assesses people's tendency to be rigid in their view of cultural differences, and to be judgmental about those differences.
- The Relationship Management Factor assesses a person's awareness of the impact they're having on others.
- The Self-Management Factor assesses one's mental and emotional health.

Achievement Tests

Achievement tests measure what someone has learned. Most of the tests you take in school are achievement tests. They measure your "job knowledge" in areas like economics, marketing, or human resources. Achievement tests are also popular at work. For example, the Purdue Test for Machinists and Machine Operators tests the job knowledge of experienced machinists with questions like "What is meant by 'tolerance'?" Some achievement tests measure the applicant's abilities; a swimming test is one example.

Computerized and Online Testing

Computerized and/or online testing is increasingly replacing paper-and-pencil tests. Such tests are available for a wide range of applications.[56] For example, Timken Company uses online math skills assessment for hourly position applicants.[57] The applicant tracking systems we discussed in Chapter 5 often include online prescreening tests, aimed at winnowing down the applicant pool.[58] Development Dimensions International developed a computerized multimedia skill test that Ford used for hiring assembly workers. Other vendors offer online practice tests for those thinking of applying.[59]

In addition to being quicker and less expensive to administer, computerized tests have other benefits. For example, vendors such as Adaptivex (https://adaptivex.io/benefits-of-adaptive-testing/)[60] offer adaptive tests. These adapt the next question to each test taker's answers to the previous question. This improves validity and makes it less likely candidates can share test questions (because each candidate gets what amounts to a customized test). For essay tests, a computer program trained to read applicants' essays recently produced scores as reliable as those of a human rater.[61] Most tests described in this chapter are available in computerized form. Make sure that the technology required to take the test does not preclude someone from being able to access and take the test.

Using Analytics, Machine Learning, and Artificial Intelligence in Employee Selection

The Holy Grail of employee selection is to identify predictors that pinpoint top-notch candidates and to do so quickly and effectively. Employers increasingly use several interrelated analytical and technical tools to improve and expedite the employee selection process.

analytics
Using tools like statistical techniques to examine data, in order to draw cause–effect conclusions from that data.

ANALYTICS **Analytics** refers to using tools like statistical techniques to examine data, in order to draw cause–effect conclusions from that data.[62] *Talent analytics* means using such techniques to let employers search through their employee data to identify patterns and correlations that show what types of people or processes succeed or fail.[63]

For example, a financial services company hired people on the assumption that what mattered for job performance were things like where they went to school and their grades.[64] However, a statistical analysis found that school and grades didn't matter at all.

What did matter were things like whether the applicant had demonstrated success in prior jobs, had shown an ability to succeed with vague instructions, and had "no typos, errors, or grammatical mistakes on résumés."

As another example, department store chain Bon-Ton Stores Inc. had high turnover among its cosmetics sales associates. Bon-Ton chose 450 current cosmetics associates who filled out anonymous surveys aimed at identifying employee traits. By using talent analytics to analyze these and other data, the company identified cosmetics associates' traits that correlated with performance and tenure. Bon-Ton had assumed that the best associates were friendly and enthusiastic about cosmetics. However, the best were actually problem solvers. They take information about what the customer wants and needs, and solve the problem.[65] Talent analysis thereby helped Bon-Ton formulate better selection criteria.

machine learning
Software that can improve its own performance and learn on its own.

MACHINE LEARNING **Machine learning** basically refers to software that can improve its own performance and learn on its own. For example, newsfeeds are often designed to identify the types of articles you prefer, and to feed you more of those articles: The software is "learning" without human intervention.[66]

Machine learning software "learns" to associate (1) inputs (like loan applications) with (2) outcomes (like who defaults on loans). A bank might use machine learning to review the data in its thousands of loan applications (the input) to determine the characteristics of the people who are most likely to repay their loans (the response). Then, going forward, it could use what the software learned, to scrutinize future loan applicants who do not meet those characteristics. One study used machine learning to identify how candidates' prior experiences predicted future performance. Here, subjects who had a history of moving on to better jobs performed better.[67]

Machine learning doesn't just rely on tests. Instead, it can discover how things like word use (does the person often say "tired"?), or comments in social media postings, or video interview facial gestures, were related to employee performance in particular companies in the past, and so how they may do so in the future.[68] For example, HireVue's software analyzes its clients' past video employment interviews for signs like facial expressions and voice modulation to determine which predict an applicant's suitability for jobs. It can then analyze each new candidate's interview for signs that predict performance.[69] Pymetrics designed machine learning tools that predicted job performance for Unilever. Candidates work through a series of puzzles. The puzzles aim to evaluate dozens of cognitive traits such as memory and appetite for risk. One puzzle is a probability game. Candidates must wager virtual money on how many times they think they can hit the spacebar in a certain number of seconds.[70]

ALGORITHMS Many such tools use *algorithms*. These programs quickly crunch through thousands of "if–then" branches (sequentially checking experience, traits, word usage, facial gestures, and so on) to find the best matching candidates for the job. They do this based on what the systems previously learned about what traits historically correlated with high performance on that particular job.[71] One caveat is that algorithms can be subject to bias, for instance, if existing successful employees are the products of a biased selection process.

artificial intelligence
Using technology (particularly computers) to carry out tasks in a way that we would consider "human" or "smart."

Finally, these tools are building blocks for artificial intelligence systems. **Artificial intelligence** basically means using technology (particularly computers) to carry out tasks in a way that we would consider "human" or "smart."[72]

LEGAL CONCERNS Some question whether AI-powered tools that do things like analyze applicants' facial expressions may violate federal privacy law.[73] Concerned about a lack of transparency surrounding how the systems arrive at their hiring recommendations, states are restricting them. For example, in Illinois, employers must give candidates an explanation of how the AI system works, and get their consent before using it.[74]

LEARNING OBJECTIVE 6-4

Explain how to use two work simulations for selection.

Work Samples and Simulations

work samples
Actual job tasks used in testing applicants' performance.

work sampling technique
A testing method based on measuring performance on actual basic job tasks.

With **work samples**, you present examinees with situations representative of the job for which they're applying, and then evaluate their responses.[75] Experts consider these (and *simulations,* like the assessment centers we also discuss in this section) to be tests. But they differ from most tests because they directly measure job performance.

Using Work Sampling for Employee Selection

The **work sampling technique** tries to predict job performance by requiring job candidates to perform one or more samples of the job's tasks. For example, work samples for a cashier may include counting money.[76]

Work sampling has advantages. It measures actual job tasks, so it's harder to fake answers. The work sample's content—the actual tasks the person must perform—is not as likely to be unfair to minorities (as might a personnel test that possibly emphasizes middle-class concepts and values).[77] Work sampling also doesn't delve into the applicant's personality, so there's little chance of applicants viewing it as an invasion of privacy. Designed properly, work samples also exhibit better validity than do other tests designed to predict performance.

The basic procedure is to select a sample of several tasks crucial to performing the job, and then to test applicants on them.[78] An observer monitors performance on each task, and indicates on a checklist how well the applicant performs. For example, in creating a work sampling test for maintenance mechanics, experts first listed all crucial job tasks (like "install pulleys and belts"). Four crucial tasks were installing pulleys and belts, disassembling and installing a gearbox, installing and aligning a motor, and pressing a bushing into a sprocket. Since mechanics could perform each task in a slightly different way, the experts gave different weights to different approaches.

Figure 6-6 shows one of the steps required for the task *installing pulleys and belts*—"checks key before installing . . . " Here the examinee might choose to check the key against (1) the shaft, (2) the pulley, or (3) neither. The applicant performs the task, and the observer checks off the score for the approach used.

Situational Judgment Tests

Situational judgment tests are personnel tests "designed to assess an applicant's judgment regarding a situation encountered in the workplace."[79] For example:

> You are a sales associate at Best Buy in Miami, Florida. The store sells electronics, including smart phones. Competition comes from other neighborhood retailers, and from online firms. Many customers who come to your store check the product with you, and then buy it on Amazon. As a sales associate, you are responsible for providing exceptional customer service, demonstrating product knowledge, and maximizing sales. You get a weekly salary, with no sales incentive. How would you respond to this situation?
>
> **Situation:**
>
> A customer comes to you with a printout for a Samsung Galaxy phone from Amazon.com, and proceeds to ask detailed questions about battery life and how to work the phone, while mentioning that "Amazon's price is $50 less than

Checks key before installing against:

—shaft	score 3
—pulley	score 2
—neither	score 1

FIGURE 6-6 Example of a Work Sampling Question
Note: This is one step in installing pulleys and belts.

yours." You have been with this customer for almost 30 minutes, and there are other customers waiting. You would:

1. Tell the customer to go buy the phone on Amazon.
2. Tell the customer to wait 20 minutes while you take care of another customer.
3. Tell the customer that the local Sprint Mobility dealer has the phone for even less than Amazon.
4. Explain the advantages of similar phones you have that may better fulfill the buyer's requirements.
5. Ask your supervisor to come over and try to sell the customer on buying the Galaxy from you. (Perhaps the best choice, followed by 4 and 3.)

Management Assessment Centers

management assessment center
A simulation in which management candidates are asked to perform realistic tasks in hypothetical situations and are scored on their performance. It usually also involves testing and the use of management games.

A **management assessment center** is a 2- to 3-day simulation in which 10 to 12 candidates perform realistic management tasks (like making presentations) under the observation of experts who appraise each candidate's leadership potential. For example, The Cheesecake Factory created its Professional Assessment and Development Center to help select promotable managers. Candidates undergo 2 days of exercises, simulations, and classroom learning to see if they have the skills for key management positions.[80]

Typical simulated tasks include

- ***The in-basket.*** The candidate gets reports, memos, notes of incoming phone calls, e-mails, and other materials collected in the actual or computerized in-basket of the simulated job the candidate is about to start. The candidate must take appropriate action on each item. Trained evaluators review the candidate's efforts.
- ***Leaderless group discussion.*** Trainers give a leaderless group a discussion question, and tell members to arrive at a group decision. They then evaluate each group member's interpersonal skills, acceptance by the group, leadership ability, and individual influence.
- ***Management games.*** Participants solve realistic problems as members of simulated companies competing in a marketplace.
- ***Individual oral presentations.*** Here trainers evaluate each participant's communication skills and persuasiveness.
- ***Testing.*** These may include tests of personality, mental ability, interests, and achievements.
- ***The interview.*** Most require an interview with a trainer to assess interests, past performance, and motivation.

Supervisor recommendations usually play a big role in choosing center participants. Line managers usually act as assessors and arrive at their ratings through consensus.[81] Assessment centers are expensive to develop, take longer than conventional tests, require managers acting as assessors, and often require psychologists. However, studies suggest they are worth it.[82] For many years, studies suggested that cognitive ability tests did a better job of predicting job performance than did assessment centers. More recent studies found assessment centers were superior.[83]

Situational Testing and Video-Based Situational Testing

situational test
A test that requires examinees to respond to situations representative of the job.

video-based simulation
A situational test in which examinees respond to video simulations of realistic job situations.

Situational tests require examinees to respond to situations representative of the job. Work sampling and situational judgment tests (discussed earlier) and some assessment center tasks (such as in-baskets) are "situational," as are miniature job training (described next) and the situational interviews we address in Chapter 7.[84]

The **video-based simulation** presents the candidate with several online or computer video situations, each followed by one or more multiple-choice questions. For example, the scenario might depict an employee handling a situation on the job. At a critical moment, the scenario ends, and the video asks the candidate to choose from several courses of action. For example:

(*A manager is upset about the condition of the department and takes it out on one of the department's employees.*)

MANAGER: Well, I'm glad you're here.

ASSOCIATE: Why?

MANAGER: I take a day off and come back to find the department in a mess. You should know better.

ASSOCIATE: But I didn't work late last night.

MANAGER: But there have been plenty of times before when you've left this department in a mess.

(*The scenario stops here.*)

If you were this associate, what would you do?

a. Let the other associates responsible for the mess know that you took the heat.
b. Straighten up the department, and try to reason with the manager later.
c. Suggest to the manager that he talk to the other associates who made the mess.
d. Take it up with the manager's boss.[85]

The Miniature Job Training and Evaluation Approach

miniature job training and evaluation
Training candidates to perform several of the job's tasks, and then evaluating the candidates' performance prior to hire.

Miniature job training and evaluation involves training candidates to perform several of the job's tasks, and then evaluating their performance prior to hire. Like work sampling, *miniature job training and evaluation* tests applicants with actual samples of the job, so it is inherently content relevant and valid.

As an example, when Honda built an auto plant in Lincoln, Alabama, it had to hire thousands of new employees. Working with an Alabama industrial development training agency, Honda began running help wanted ads.

Honda and the agency first eliminated those applicants who lacked the education or experience, and then gave preference to applicants near the plant. About 340 applicants per 6-week session received special training at a new facility about 15 miles south of the plant. It included classroom instruction, watching videos of current Honda employees in action, and actually practicing particular jobs. Some candidates who watched the videos simply dropped out when they saw the work's pace and repetitiveness.

The training sessions served two purposes. First, job candidates learned the actual skills they'll need to do the Honda jobs. Second, the training sessions enabled special assessors from the Alabama state agency to scrutinize the trainees' performance and to rate them. They then invited those who graduated to apply for jobs at the plants. Honda teams, consisting of employees from HR and departmental representatives, did the final screening.[86]

Employers such as Honda first train and then have applicants perform several of the job tasks, and then evaluate the candidates before hiring them.

Imaginechina Limited/Alamy Stock Photo

Realistic Job Previews

Sometimes, a dose of realism makes the best screening tool. For example, when Walmart began explicitly explaining and asking about work schedules and work preferences, turnover improved.[87] In general, applicants who receive realistic job previews are more likely to turn down job offers, but their employers are more likely to have less turnover and be more resilient.[88]

The Strategic Context: Google's Hiring Process

As it turned out, Earnest had nothing to fear. Google's hiring process was rigorous but also informative and friendly, and he got the job.

It also turned out that Google had dropped the "brainteaser" questions. Its analysis showed that they didn't predict how candidates would actually do on the job.[89]

It's easy to understand the nature of Google's selection process, if you step back and think of it in the context of Google's overall strategy and ways of doing things. Google's mission is to "organize the world's information and make it universally accessible and useful." To achieve that, Google seeks certain employee behaviors. These include excellence, intelligence, and involvement, as well as applying scientific rigor to decisions. Teamwork is central; as it says, "Googlers care deeply about their teams and the people who make them up."[90]

Google's hiring process methods and policies follow from these behaviors. In keeping with its mission ("to . . . make [information] universally accessible and useful") it explains its hiring process on its website, and how to excel in it.[91] Its hiring process often starts with an online assessment. It then includes short virtual chats with a recruiter and team member; completing a small job-related project; and then three to four in-depth structured interviews with the manager and peers from the prospective team (we'll address structured interviewing in Chapter 7).

Choosing a Selection Method

What selection tool to use? The employer should consider several things before choosing a particular tool (or tools). These include the tool's reliability and validity; its practicality; applicant reactions; adverse impact (see the accompanying Diversity Counts box); cost; and the tool's *selection ratio* (does it screen out, as it should, a high percentage of applicants or admit virtually all?).[92] Table 6-1 summarizes the validity, adverse impact, and cost of several tools.

TABLE 6-1 Evaluation of Selected Assessment Methods

Assessment Method	Validity	Adverse Impact	Costs (Develop/Administer)
Cognitive ability tests	High	High (against minorities)	Low/low
Job knowledge test	High	High (against minorities)	Low/low
Personality tests	Low to moderate	Low	Low/low
Integrity tests	Moderate to high	Low	Low/low
Structured interviews	High	Low	High/high
Situational judgment tests	Moderate	Moderate (against minorities)	High/low
Work samples	High	Low	High/high
Assessment centers	Moderate to high	Low to moderate, depending on exercise	High/high
Physical ability tests	Moderate to high	High (against females and older workers)	High/high

Source: Elaine D. Pulakos, "Selection Assessment Methods: A Guide to Implementing Formal Assessments to Build a High-Quality Workforce", SHRM Foundation's Effective Practice Guidelines, SHRM Foundation, 2005. Reprinted by permission from SHRM Foundation.

DIVERSITY COUNTS

How the U.S. Army Removes Bias from Its Officer Selection Process

In the U.S. Army, *Battalion Commander* is the first rung of executive positions. Each commander is responsible for about 500 soldiers.[93] Battalion commanders are also a main source of the officers the army eventually promotes to general.

For decades, the Army used the same process to select these commanders. Senior officers reviewed and scored each eligible lieutenant colonel's file. Each file contained the eligible officer's photo, prior assignments, and performance evaluations. It took each officer evaluating a file about 90 seconds to do so. Typically, about 500 of 1,900 candidates made the cut.

Today the U.S. Army uses a much more formal four-day evaluation process. The first three days focus on testing. Tests include a physical fitness test, essays, cognitive and psychological assessments, and a simulated assessment of candidates' leadership and problem-solving skills.

In the candidates' fourth day, special senior officer panels evaluate each candidate's communication skills during 30-minute interviews. The army then combines this panel's recommendation with a traditional review of each candidate's file, to arrive at a decision.

Because the panels play a big role in selection, the Army wants to minimize the chance of bias undermining panel members' objectivity. The steps it uses to reduce selection bias include the following:

Diverse panels. Each panel consists of five voting and three nonvoting members. The Army forms each panel with an eye toward diversity, for example in terms of gender, ethnicity, and specialty.

Antibias training. Selection is subject to bias. For example, there is a tendency to stereotype someone based on that person's membership in some group. Trainers show each panel member how to prevent such bias errors.

Familiarity. Before evaluating anyone, each panelist receives the names of all candidates. Panelists who know a candidate cannot evaluate that person.

Level playing field. Some candidates may have more experience being interviewed than do others. Therefore the Army trains all candidates in the interview process.

Double-blind interviews. Candidates' appearance and facial expressions can bias how the person's answers are interpreted. Therefore the panels conduct blind interviews: there is a curtain separating them from the candidate.

Monitor panels in real time. To ensure each panel is working properly, a general overseeing the process observes and holds frequent meetings with panels. ■

HR Tools for Line Managers and Small Businesses: Employee Testing and Selection

One irony of being a line manager in even the largest of companies is that, when it comes to screening employees, you're often on your own. Some large firms' HR departments may work with the hiring manager to design and administer the sorts of screening tools we discussed in this chapter. But in some of these firms, the HR departments do little more than some preliminary prescreening (for instance, arithmetic tests for clerical applicants); then they follow up with background checks and drug and physical exams.

What should you do if you are, say, a marketing manager, and want to screen some of your job applicants more formally? It is possible to devise your own test battery, but caution is required. Purchasing and then using packaged intelligence tests or psychological tests or even tests of marketing ability could be problematical. Doing so may violate company policy, raise validity questions, and expose your employer to EEO liability if problems arise.

One preferred approach is to devise and use screening tools, the face validity of which is obvious. The work sampling test we discussed is one example. It's not unreasonable, for instance, for the marketing manager to ask an advertising applicant to spend 30 minutes designing an ad, or to ask a marketing research applicant to outline a marketing research program for a hypothetical product.[94]

Similarly, a production manager might reasonably ask an inventory control applicant to spend a few minutes using a standard inventory control model to solve an inventory problem.

For small business owners, some tests' ease of use makes them particularly good for small firms. One example is the *Wonderlic Personnel Test*; it measures general mental ability in about 15 minutes. The tester reads the instructions, and then keeps time as the candidate works through the 50 short problems on two pages. The tester scores the test by totaling the number of correct answers. Comparing the person's score with the minimum scores recommended for various occupations shows whether the person achieved the minimally acceptable score for the type of job in question. The *Predictive Index* measures work-related personality traits on a two-sided sheet. For example, there is the "social interest" pattern for a person who is generally unselfish, congenial, and unassuming. This person would be a good personnel interviewer, for instance. A template makes scoring simple.

Finally, for some jobs past performance is a more useful predictor of performance than are formal selection tests. For example, one study of prospective NFL players concluded that collegiate performance was a significantly better predictor of NFL performance than were physical ability tests.[95]

LEARNING OBJECTIVE 6-5

Describe four ways to improve an employer's background checking process.

Background Investigations and Other Selection Methods

Testing is only part of an employer's selection process. Other tools may include background investigations and reference checks, preemployment information services, honesty testing, and substance abuse screening.

Why Perform Background Investigations and Reference Checks?

One major company was about to announce a new CEO until they discovered he had a wife and two children in one state as well as a wife and two children in another state.[96] More mundanely, the recruiter HireRight found that of the over 600,000 educational verifications they did in one 12-month period, 32% had discrepancies.[97]

One of the easiest ways to avoid hiring mistakes is to check the candidate's background thoroughly. Doing so is inexpensive and (if done right) useful. There's usually no reason why even supervisors in large companies can't check the references of someone they're about to hire, as long as they know the rules.

WHAT TO CHECK There are two main reasons to check backgrounds—to verify the applicant's information (name and so forth) and to uncover damaging information.[98] Lying on one's application isn't unusual. A survey found that 23% of 7,000 executive résumés contained exaggerated or false information.[99]

Most employers check and verify the job applicant's background information and references. In one survey of about 700 human resource managers, 87% said they conduct reference checks, 69% conduct background employment checks, 61% check employee criminal records, 56% check employees' driving records, and 35% sometimes or always check credit.[100] Commonly verified data include legal eligibility for employment (in compliance with immigration laws), dates of prior employment, military service (including discharge status), education, identification (including date of birth and address to confirm identity), county criminal records (current residence, last residence), motor vehicle record, credit, licensing verification, Social Security number, and reference checks.[101] Some employers check executive candidates' civil litigation records, with the candidate's prior approval.[102] At least 13 states and a number of municipalities have so-called "Ban the Box" or "Fair Chance" laws that prohibit or limit private employers from asking about criminal records on initial written applications.[103] Some employers also do ongoing due diligence background checks for current employees.[104]

How deeply you search depends on the position. For example, a credit check is more important for hiring an accountant than a groundskeeper. In any case, also periodically check the credit ratings of employees (like cashiers) who have easy access to company assets, and the driving records of employees who use company cars.

USEFULNESS Yet most managers don't view references as very useful. Realistically, few employers will talk freely about former employees. For example, in one poll, the Society for Human Resource Management found that 98% of 433 responding members said their organizations would verify dates of employment for current or former employees. However, 68% said they wouldn't discuss work performance; 82% said they wouldn't discuss character or personality; and 87% said they wouldn't disclose a disciplinary action.[105] Many supervisors don't want to damage a former employee's chances for a job; others might prefer giving an incompetent employee good reviews to get rid of them.

Another reason is legal. Employers providing references generally can't be successfully sued for defamation unless the employee can show "malice"—that is, ill will, culpable recklessness, or disregard of the employee's rights.[106] But many managers and companies understandably still don't want the grief.

But at the end of the day, not endeavoring to get references from people who know the candidate is probably not wise.

Know Your Employment Law: Giving References

Federal laws that affect references include the Privacy Act of 1974, the Fair Credit Reporting Act of 1970, the Family Education Rights and Privacy Act of 1974 (and Buckley Amendment of 1974), and the Freedom of Information Act of 1966. They give people the right to know the nature of information in their credit files and files with government agencies, and (Privacy Act) to review records pertaining to them from any private business that contracts with a federal agency. The employer must also adhere to the Fair Credit Reporting Act's requirements. For instance, make sure applicants consent to having their credit checked.[107] The point is that the person may well see your comments.[108]

Beyond that, common law (in particular the tort of defamation) applies to any information you supply. Communication is defamatory if it is false and tends to harm the reputation of another by lowering the person in the estimation of the community or by deterring other persons from dealing with him or her.

Truth is not always a defense. In some states, employees can sue employers for disclosing to a large number of people true but embarrassing private facts about the employee. One older case involved a supervisor shouting that the employee's wife had been having sexual relations with certain people. The jury found the employer liable for invasion of the couple's privacy and for intentional infliction of emotional distress.[109]

EMPLOYER RELUCTANCE Although the risk of suit may be low,[110] the net result is that most employers and managers restrict who can give references and what they can say. (One study found a "culture of silence" among hospitals regarding sharing such information.)[111] As a rule, the handling of references should be centralized, and only authorized managers should provide information.[112] Many employers direct such requests to specialists at companies such as Equifax's "The Work Number," who actually handle giving the required reference information.[113] Other suggestions include "Don't volunteer information," "Avoid vague statements," and, "Do not answer trap questions such as, 'Would you rehire this person?'" In practice, many firms have a policy of not providing any information about former employees except for their dates of employment, last salary, and position titles.[114]

(However, *not* disclosing relevant information can be dangerous, too. In one case, a company fired an employee for allegedly bringing a handgun to work. After his next employer fired him for absenteeism, he returned to that company and shot several employees. The injured parties and their relatives sued the previous employer, who had provided the employee with a clean letter of recommendation.)

The person alleging defamation has various legal remedies, including suing the source of the reference for defamation, invasion of privacy, interference with contract, and discrimination.[115] In one case, a court awarded a man $56,000 after a company turned him down for a job after the former employer called him a "character." Many firms will check references for a small fee (Google *reference checking service*).[116]

One supervisor hired such a firm. It found that someone at the supervisor's previous company suggested that the supervisor was " . . . not comfortable with taking risks, or making big decisions." The former employee/supervisor sued, demanding an end to defamation and $45,000 in compensation.[117]

GETTING BETTER INFORMATION There are several ways managers and employers can get better information.

Most employers still at least try to verify an applicant's current (or former) position and salary with his or her current (or former) employer by phone (assuming you cleared doing so with the candidate). Others still call the applicant's current and previous supervisors. They try to discover more about the person's motivation, technical competence, and ability to work with others (although, again, many employers have policies against providing such information). Figure 6-7 shows a form for phone references.

Automated online reference checking can improve the results. With a system such as Skill Survey's Pre-Hire 360 (www.skillsurvey.com/reference-checking-solution/), the hiring employer inputs the applicant's name and e-mail address. Then the person's preselected references rate the applicant's skills anonymously, using a survey. The system then compiles these references into a report for the employer.[118]

Social Media

Social media tools changed the background-checking process. Employers Google applicants or check Facebook, TikTok, and LinkedIn, and what they find isn't always pretty. One candidate described his interests on Facebook as smoking pot and shooting people. The student may have been kidding, but didn't get the job.[119] Discriminatory comments and bad-mouthing past employers are other potentially damaging posts.[120]

POTENTIAL PROBLEMS Web and social media background searches can be problematical. Applicants usually don't list race, age, disability or ethnic origin on their résumés, but their Facebook pages may well reveal such information, setting the stage for possible EEOC claims. Social media profiles may also contain other information that employers usually can't legally gather, such as on disabilities and pregnancy. Others contain items like profanity, or evidence of alcohol consumption that may be problematical.[121] Information used in screening should be both non-discriminatory and performance related, guidelines not always easily followed once social media comments become fair game. The problem is that with most profiles public, hiring managers may surreptitiously access them, without the applicant's permission. An overeager supervisor might thus conduct his or her own Facebook "background check," creating EEO and other problems.[122] At least 27 states have laws limiting employers from using social media for getting or keeping jobs, for instance in terms of requesting passwords.[123]

The solution isn't necessarily to totally stop using social media information (unless doing so is illegal, as in many states). However, using it requires caution (one recent *Harvard Business Review* article is titled, "Stop Screening Job Candidates' Social Media").[124] SHRM recommends using a five-step process, starting with formulating a social media policy, and preparing screening questions for the position ahead of time.[125] Other sensible social media procedures may include, inform employees and prospective employees ahead of time regarding what information the employer plans to review. Assign one or two specially trained human resource professionals to search social media sites. Get the candidate's prior approval for a social network search (where allowed).[126] Do not use a pretext or fabricate an identity.[127] And, warn unauthorized employees (such as supervisors) about not accessing such information.[128]

Using Preemployment Information Services

It is easy to have employment screening services check applicants. Vendors include Accurate (accurate.com), First Advantage (FADV.com), and Clearchecks (www.clearchecks.com).[129] Firms like these use databases to access information about things like workers' compensation, credit histories, and conviction and driving records.

FIGURE 6-7 Reference Checking Form

Source: Reprinted with permission of the Society for Human Resource Management (www.shrm.org), Alexandria, VA 22314.

Employment Reference Request Form (Phone)

Employment Reference Request Form (Phone) (www.shrm.org/ResourcesAndTools/tools-and-samples/hr-forms/Documents/Employment%20Reference%20Request%20Form%20Phone.docx)

[Verify that the applicant has provided permission before conducting reference checks and complete this top section initially from candidate's application, resume or interview notes.]

Candidate Name _____

Reference Name _____

Company Name _____

Dates of Employment: From: _____ To: _____

Position(s) Held _____

Reason for Leaving _____

[Explain the reason for your call and verify the above information with the supervisor, including the reason for leaving. Note any differing or new information below.]

_____

_____

_____

Please describe the type of work for which the candidate was responsible.

_____

_____

_____

How would you describe the applicant's relationships with co-workers, subordinates (if applicable) and superiors?

_____

_____

_____

Is the candidate more of an individual contributor, or is he or she more team-oriented? Why do you think so?

_____

_____

_____

Was the candidate in a lot of high-pressure or stressful work situations? If so how did the candidate handle these situations?

_____

_____

_____

How would you describe the quantity and quality of output generated by the candidate?

_____

_____

_____

What were the candidate's strengths on the job?

_____

_____

_____

What were the candidate's weaknesses on the job?

_____

_____

_____

What is your overall assessment of the candidate?

_____

_____

_____

(*Continued*)

FIGURE 6-7 ***Continued***

Did the candidate have any warnings or discipline regarding *unexcused* attendance issues (frequent absences, tardiness, etc.)? *[Do not ask about or discuss medical issues.]*

_____

_____

_____

The candidate has applied for a position as a _____ with our company. Do you believe the candidate would be a good fit for this type of position? Why or why not?

_____

_____

_____

Would this individual be eligible for rehire at your organization? Why or why not?

_____

_____

_____

Is there anything I haven't asked about that someone considering this person for a job should be aware of?

_____

_____

_____

Completed by: _____ Date: _____

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For example, retail employers use them to see if their job candidates have previously been involved in suspected retail thefts.[130] Another firm advertises that for less than $50 it will do a criminal history report, motor vehicle/driver's record report, and (after the person is hired) a workers' compensation claims report history, plus confirm identity, name, and Social Security number. There are thousands of databases, including sex offender registries and criminal and educational histories. Blockchain technology expedites checking applicants' credentials. For example, when a university issues a digital diploma, the *blockcerts* mobile app creates a unique "fingerprint" of it. This facilitates quickly confirming the degree's legitimacy.[131]

There are at least three reasons to use caution with background checking services.[132] First, EEO laws apply, and so the employer should guard against inadvertently using the results in an unlawful manner. For example, some minorities are more likely to be arrested. Similarly, as noted, many states have "Ban the Box" laws limiting questions about applicants' criminal backgrounds.[133] If the vendor collects such information and the employer uses it, the employer may be liable.

Second, federal and state laws govern how employers acquire and use applicants' and employees' background information. At the federal level, the Fair Credit Reporting Act is the main directive. In addition, at least 21 states impose their own requirements. Authorizing background reports while complying with these laws requires four steps, as follows:

Step 1: ***Disclosure and authorization.*** Before requesting reports, the employer must disclose to the applicant or employee that a report will be requested and that the employee/applicant may receive a copy. (Do this on the application form.)

Step 2: ***Certification.*** The employer must certify to the background checking firm that the employer will comply with the federal and state legal requirements—for example, that the employer obtained written consent from the employee/applicant.

Step 3: ***Providing copies of reports.*** Under federal law, the employer must provide copies of the report to the applicant or employee if adverse action (such as withdrawing a job offer) is contemplated.[134]

Step 4: ***Notice after adverse action.*** If the employer anticipates taking an adverse action, the employee/applicant must get an *adverse action notice*. The employee/applicant then has various remedies under the law.[135]

Third, criminal background information, if any, may be flawed. Many return "possible matches" for the wrong person (who happens to be a criminal).[136] One such firm paid a $2.6 million penalty after the Federal Trade Commission sued it for such erroneous reporting.[137]

Steps for Making the Background Check More Valuable

There are steps one can take to improve the usefulness of the background information being sought. Specifically:

- Include on the application form a statement for applicants to sign explicitly authorizing a background check. Among other things, the applicant should certify that the facts set forth in the employment application are true and complete; that falsified statements may be cause for not making an offer or to withdrawing an offer, or to dismissal if employed. The applicant should also authorize investigation of credit, employment record, driving record, and, once a job offer is made, of workers' compensation background if required.
- Phone references tend to produce more candid assessments. Use a form, such as |Figure 6-7. Remember that you can get relatively accurate information regarding dates of employment, eligibility for rehire, and job qualifications. It's more difficult to get other background information (such as reasons for leaving a previous job).[138]
- Persistence and attentiveness to possible red flags improve results. For example, if the former employer hesitates or seems to qualify his or her answer, don't go on to the next question. Try to unearth what the applicant did to make the former employer pause. If he says, "Joe requires some special care," say, "Special care?"
- Compare the application to the résumé; people tend to be more creative on their résumés than on their application forms, where they must certify the information.
- Try to ask open-ended questions (such as, "How much structure does the applicant need in his/her work?") to get the references to talk more about the candidate. But keep in mind:[139] Stick to job-related information that you're going to use; using arrest information is highly problematical; many states and municipalities prohibit asking about salary history; and keep information confidential.
- Ask the references supplied by the applicant to suggest other references. You might ask each of the applicant's references, "Could you give me the name of another person who might be familiar with the applicant's performance?" Then you begin getting information from references who may be more objective, because they did not come directly from the applicant (or use LinkedIn's Reference Search service).
- Aim for "360" reference checking: A full picture requires contacting the person's former supervisors, colleagues, and subordinates.[140]

polygraph
A device that measures physiological changes like increased perspiration, on the assumption that such changes reflect lying.

The Polygraph and Honesty Testing

The **polygraph** is a device that measures physiological changes like increased perspiration. The assumption is that such changes reflect changes in emotional state that accompany lying.

Complaints about offensiveness plus grave doubts about the polygraph's accuracy culminated in the Employee Polygraph Protection Act of 1988.[141] With a few exceptions, the law prohibits employers from conducting polygraph examinations of all job applicants and most employees.[142] Federal laws don't prohibit paper-and-pencil honesty tests or chemical testing, as for drugs.

Local, state, and federal government employers (including the FBI) can use polygraphs for selection screening and other purposes, but state laws restrict many local and state governments. Private employers can use polygraph testing, but only under strictly limited circumstances.[143] These include firms with national defense or security contracts, and private businesses (1) hiring private security personnel, (2) hiring persons with access to drugs, or (3) certain firms doing ongoing investigations, such as for theft.

WRITTEN HONESTY TESTS Paper-and-pencil (or computerized or online) honesty tests are special types of personality tests designed to predict job applicants' proneness to dishonesty and other forms of counterproductivity.[144] Most measure attitudes regarding things like tolerance of others who steal, and admission of theft-related activities. They include the MINT test of integrity, published by Assessio (www.assessio.com/).[145]

Studies support such tests' validity; scores relate not only to dysfunctional behaviors such as theft, but positively to both conscientiousness and overall performance.[146] One study involved 111 employees hired by a convenience store chain to work at store or gas station counters.[147] The firm estimated that "shrinkage" equaled 3% of sales, and believed that internal theft accounted for much of this. Scores on an honesty test successfully predicted theft here (as measured by termination for theft).

graphology
The use of handwriting analysis to determine the writer's personality characteristics and moods, and even illnesses, such as depression.

Graphology is the use of handwriting analysis to determine the writer's personality characteristics and moods, and even illnesses, such as depression.[148] It thus bears some resemblance to projective personality tests, although graphology's validity is highly suspect. The handwriting analyst studies an applicant's handwriting and signature, to discover the person's needs, desires, and psychological makeup. In one example, the graphologist notes that a writing sample has small handwriting, a vertical stance, and narrow letters (among other things) and so is indicative of someone with uptight tendencies. One study reports successfully identifying writers' genders through graphology.[149] There are computerized systems for expediting graphology analyses.[150]

Most scientific studies suggest graphology has little or no validity, or that when graphologists do accurately size up candidates, it's because they were also privy to other background information. Googling "graphology" produces scores of hits such as "Sorry, Graphology Isn't a Real Science".[151] Yet some firms have embraced it.[152] Given the practical need to validate selection tools, most experts shun it.

"HUMAN LIE DETECTORS" Some employers use so-called human lie detectors, experts who may (or may not) be able to identify lying just by watching candidates.[153] One Wall Street firm uses a former FBI agent. He sits in on interviews and watches for signs of candidate deceptiveness. Signs include pupils changing size (fear), irregular breathing (nervousness), crossing legs ("liars distance themselves from an untruth"), and quick verbal responses (scripted statements).

PRACTICAL GUIDELINES With or without testing, there's a lot a manager can do to screen out dishonest applicants or employees. Specifically:

- Ask blunt questions.[154] Says one expert, there is nothing wrong with asking the applicant direct questions, such as, "Have you ever stolen anything from an employer?" "Have you recently held jobs other than those listed on your application?" "Is any information on your application misrepresented or falsified?"

- Listen carefully. Liars may try to answer direct questions somewhat evasively. For example, ask them if they've ever used drugs, and they might say, "I don't take drugs."[155]
- Watch for telltale body signals. For example, someone who is not telling the truth may move his or her body slightly away from you.[156] Establish a baseline by seeing how the person's body is positioned when undoubtedly telling the truth. Know that it is *not* true that adult liars won't look you in the eye when they're lying; polished liars may actually do so excessively.[157]
- Do a credit check. Include a clause in your application giving you the right to conduct background checks, including credit checks and motor vehicle reports.
- Check all employment and personal references.
- Use written honesty tests and psychological tests.
- Test for drugs. Devise a drug-testing program and give each applicant a copy of the policy.
- Establish a search-and-seizure policy, and conduct searches. Give each applicant a copy of the policy, and require each to return a signed copy. The policy should state, "All lockers, desks, and similar property remain the property of the company and may be inspected routinely."

Honesty testing requires caution. Having just taken and "failed" what is fairly obviously an "honesty test," the candidate may leave the premises feeling mistreated. Some "honesty" questions also pose invasion-of-privacy issues. And some states such as Massachusetts and Rhode Island limit paper-and-pencil honesty testing.

Physical Exams

Once the employer extends the person a job offer, a medical exam is often the next step in selection (although it may also occur after the new employee starts work).

There are several reasons for preemployment medical exams: to verify that the applicant meets the job's physical requirements, to discover any medical limitations you should consider in placement, and to establish a baseline for future workers' compensation claims. Exams can also reduce absenteeism and accidents and detect communicable diseases.

Under the Americans with Disabilities Act, an employer cannot reject someone with a disability if that person is otherwise qualified and can perform the essential job functions with reasonable accommodation. The employer can ask if the person can do the job, and how they would do it. Recall that the ADA permits a medical exam as a condition for starting a job, during the period between the job offer and commencement of work, if such exams are standard practice for all applicants for that job category.[158]

Substance Abuse Screening

Most employers conduct drug screenings, and many applicants flunk the tests.[159] The most common practice is to test candidates just before they're formally hired. Many also test current employees when there is reason to believe they've been using drugs—after a work accident, or with obvious behavioral symptoms such as chronic lateness. Some firms routinely administer drug tests on a random or periodic basis, while others require drug tests when they transfer or promote employees to new positions.

Most employers that conduct such tests use urine sampling. Numerous vendors provide workplace drug-testing services.[160] Employers may use urine testing to test for illicit drugs, breath alcohol tests to determine amount of alcohol in the blood, blood tests to measure alcohol or drugs in the blood at the time of the test, hair analyses to reveal drug history, saliva tests for substances such as marijuana and cocaine, and skin patches to determine drug use.[161] It is more difficult recently to find applicants who can pass a drug test.[162] As a result, more employers are relaxing their standards about hiring those who fail tests, particularly for marijuana.[163]

EFFECTIVENESS Drug testing, while ubiquitous, is neither as simple nor as effective as it might appear. First, no drug test is foolproof. Some urine sample tests can't distinguish between legal and illegal substances; for example, Advil can produce positive results for marijuana. Furthermore, there's a cottage industry offering products, including synthetic urine, that purportedly help applicants pass drug tests (Google "*products for beating drug tests*").[164] (Employers should view the presence of adulterants in a sample as a positive test.) One alternative, hair follicle testing, requires a small sample of hair, which the lab analyzes.[165] But here, too, classified ads advertise chemicals to rub on the scalp to fool the test. Employers should choose the lab they engage for testing with care.

There's also the question of what the point is. Unlike roadside DUI breathalyzers, tests for drugs show only whether drug residues are present; they don't indicate impairment (or, for that matter, habituation or addiction). To paraphrase one pundit, "Do you really want to fire someone for using marijuana at home?"[166] Some therefore argue that testing is not justifiable on the grounds of boosting workplace safety.[167] Many feel the testing procedures themselves are degrading and intrusive. Many employers reasonably counter that they don't want drug-prone employees on their premises. About 30 states permit marijuana use for medical purposes, and a number also for recreational use. New Hampshire's Supreme Court recently ruled an employer could not fire a stressed-out employee for using medical marijuana.[168] This all is prompting some employers to rethink their marijuana testing policies.[169] Finally, there is the question of whether people from underrepresented groups are more likely to work for employers who test and/or to be more subject to drug testing at work.[170]

Drug Testing Legal Issues

Drug testing raises numerous legal issues. Employees may claim drug tests violate their rights to privacy. Hair follicle testing is less intrusive than urinalysis but can actually produce more personal information: A short hair segment could record months of drug use.[171] The National Labor Relations Board upheld a union member's right to have representation after failing a drug test; this decision may "severely disrupt and limit" unionized employers' ability to test and deal with employees who are under the influence.[172] Courts require that employers who administer drug tests to employees who have accidents focus on recent drug use.[173]

FEDERAL AND STATE LAW Several federal laws affect workplace drug testing, and multistate employers must ensure they also comply with multiple states' laws (some states permit medical marijuana use, for instance).[174] Under the Americans with Disabilities Act, a court would probably consider a former drug user (who no longer uses illegal drugs and has successfully completed or is participating in a rehabilitation program) as a qualified applicant with a disability.[175] Under the Drug Free Workplace Act of 1988, federal contractors must maintain a workplace free from illegal drugs. While this doesn't require contractors to conduct drug testing or rehabilitate affected employees, many do. Under the U.S. Department of Transportation workplace regulations, firms with over 50 eligible employees in transportation industries must conduct alcohol testing on workers with sensitive or safety-related jobs. These include mass transit workers, air traffic controllers, train crews, and school bus drivers.[176] Other laws, including the Federal Rehabilitation Act of 1973 and various state laws, protect rehabilitating drug users or those who have a physical or mental addiction.

POSITIVE TESTS What should an employer do when a job candidate tests positive? As a rule, most companies won't hire such candidates, but current employees have more legal recourse. Most must be told the reason for dismissal if the reason is a positive drug test. And again, there are industry-specific and state-specific requirements. For example, certain transportation companies and federal contractors must comply with federal drug-testing rules for their industries. Similarly, state laws vary. For example, in several states you cannot fire someone for a first failed drug test if that person agrees to rehabilitation.[177]

Particularly where sensitive jobs are concerned, courts tend to side with employers. In one classic but exemplary case, a U.S. Court of Appeals ruled that Exxon acted properly in firing a truck driver who failed a drug test. Exxon requires random testing of employees in safety-sensitive jobs. The employee drove a tractor-trailer carrying 12,000 gallons of flammable motor fuel and tested positive for cocaine. The union representing the employee challenged the firing. An arbitrator reduced the penalty to a 2-month suspension. However the appeals court ruled that the employer acted properly in firing the truck driver.[178]

Complying with Immigration Law

Employees hired in the United States must prove they are eligible to work here. Applicants can prove their eligibility for employment in two ways. One is to show a document (such as a U.S. passport, or alien registration card with photograph) that proves *both* identity and employment eligibility. The other is to show a document that proves the person's identity, such as a driver's license, along with a second document showing his or her employment eligibility, such as a work permit.[179] In any case, it's always advisable to get two forms of identity proof.

EMPLOYER PROCEDURES The requirement to verify eligibility does not provide any basis to reject an applicant just because that person is a foreigner, not a U.S. citizen, or an alien residing in the United States, as long as they can prove their identity and employment eligibility. To comply with this law, employers should follow procedures outlined in the so-called I-9 Employment Eligibility Verification form. The federal government has been tightening its oversight.[180] Many employers use the federal government's voluntary electronic employment verification program, E-Verify.[181] Federal contractors must use it[182] (there is no charge to use E-Verify).[183] Many employers now use automated I-9 verification systems. These have drop-down menus to electronically compile and submit applicants' I-9 data.[184] Reviewing verification documents virtually, as for remote applicants, is currently permissible.[185] Note that I-9 forms contain a prominent "antidiscrimination notice."[186]

Identity theft—undocumented workers stealing and using an authorized worker's identity—is a problem even with E-Verify.[187] The federal government is tightening restrictions on hiring undocumented workers. Realizing that many documents are fakes, the government is putting the onus on employers to make sure whom they're hiring.

You can verify Social Security numbers online or with a special fee-based service by contacting the Social Security Administration.[188] Employers can avoid accusations of discrimination by verifying the documents of all applicants, not just those they may think are suspicious.[189]

Chapter Review

Chapter Section Summaries

6-1. Careful **employee selection is important** for several reasons. Your own performance always depends on your subordinates; it is costly to recruit and hire employees, and mismanaging the hiring process has various legal implications including equal employment, negligent hiring, and defamation.

6-2. Whether you are administering tests or making decisions based on test results, managers need to understand several **basic testing concepts.** Reliability refers to a test's consistency, while validity tells you whether the test is measuring what you think it's supposed to be measuring. Criterion validity means demonstrating that those who do well on the test also do well on the job while content validity means showing that the test constitutes a fair sample of the job's content. Validating a test involves analyzing the job, choosing the tests, administering the test, relating your test scores and criteria, and cross-validating

and revalidating. Test takers have rights to privacy and feedback as well as to confidentiality.

6-3. Whether they are administered via paper and pencil, by computer, or online, we discussed several main **types of tests.** Tests of cognitive abilities measure things like reasoning ability and include intelligence tests and tests of specific cognitive abilities such as mechanical comprehension. There are also tests of motor and physical abilities, and measures of personality and interests. With respect to personality, psychologists often focus on the "big five" personality dimensions: extraversion, emotional stability/neuroticism, agreeableness, conscientiousness, and openness to experience. Achievement tests measure what someone has learned.

6-4. With **work samples and simulations,** you present examinees with situations representative of the jobs for which they are applying. One example is the management assessment center, a 2- to 3-day simulation in which 10 to 12 candidates perform realistic management tasks under the observation of experts who appraise each candidate's leadership potential. Video-based situational testing and the miniature job training and evaluation approach are two other examples.

6-5. Testing is only part of an employer's selection process; you also want to conduct **background investigations and other selection procedures.**

- The main point of doing a background check is to verify the applicant's information and to uncover potentially damaging information. However, care must be taken, particularly when giving a reference, that the employee not be defamed and that his or her privacy rights are maintained.
- Given former employers' reluctance to provide a comprehensive report, those checking references need to do several things. Make sure the applicant explicitly authorizes a background check, use a checklist or form for obtaining telephone references, and be persistent and attentive to potential red flags.
- Given the growing popularity of computerized employment background databases, many or most employers use preemployment information services to obtain background information.
- For many types of jobs, honesty testing is essential, and paper-and-pencil tests have proven useful.
- Most employers also require that new hires, before actually coming on board, take physical exams and substance abuse screening. It's essential to comply with immigration law, in particular by having the candidate complete an I-9 Employment Eligibility Verification Form and submit proof of eligibility.

Discussion Questions

6-1. What is the difference between reliability and validity?

6-2. Explain why you think a psychologist who is specifically trained in test construction should (or should not) be used by a small business that needs an employment test.

6-3. Why is it important to conduct preemployment background investigations? How would you do so?

6-4. Explain how you would get around the problem of former employers being unwilling to give bad references on their former employees.

6-5. How can employers protect themselves against negligent hiring claims?

Individual and Group Activities

6-6. Write a short essay discussing some of the ethical and legal considerations in testing.

6-7. Working individually or in groups, develop a list of specific selection techniques that you would suggest your dean use to hire the next HR professor at your school. Explain why you chose each selection technique.

6-8. Working individually or in groups, contact the publisher of a standardized test such as the Scholastic Assessment Test, and obtain from it written information regarding the test's validity and reliability. Present a short report in class discussing what the test is supposed to measure and the degree to which you think the test does what it is supposed to do, based on the reported validity and reliability scores.

6-9. The HRCI *Exam Content Outline* website https://www.hrci.org/docs/default-source/web-files/phr-exam-content-outline.pdf?sfvrsn=13c44f61_28 lists the knowledge someone studying for the HRCI PHR certification exam needs to have in each area of human resource management (such as in Business Management, and in Talent Planning

and Acquisition.)[190] In groups of several students, do four things: (1) review the *Exam Content Outline* on that website; (2) identify the material in this chapter that relates to the Exam Content Outline's required "Knowledge Of" lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.

Experiential Exercise

A Test for a Reservation Clerk

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Purpose: The purpose of this exercise is to give you practice in developing a test to measure *one specific ability* for the job of airline reservation clerk for a major airline. If time permits, you'll be able to combine your tests into a test battery.

Required Understanding: Your airline has decided to outsource its reservation jobs to Asia. You should be fully acquainted with the procedure for developing a personnel test and should read the following description of an airline reservation clerk's duties:

> Customers contact our airline reservation clerks to obtain flight schedules, prices, and itineraries. The reservation clerks look up the requested information on our airline's online flight schedule systems, which are updated continuously. The reservation clerk must speak clearly, deal courteously and expeditiously with the customer, and be able to find quickly alternative flight arrangements in order to provide the customer with the itinerary that fits his or her needs. Alternative flights and prices must be found quickly, so that the customer is not kept waiting, and so that our reservations operations group maintains its efficiency standards. There may be a dozen or more alternative routes between the customer's starting point and destination.

You may assume that we will hire about one-third of the applicants as airline reservation clerks. Therefore, your objective is to create a test that is useful in selecting a third of those available.

How to Set Up the Exercise/Instructions: Divide the class into teams of five or six students. The ideal candidate will need to have a number of skills to perform this job well. Your job is to select a single skill and to develop a test to measure that skill. Please use only the materials available in the room. The test should permit quantitative scoring and may be an individual or a group test.

Please go to your assigned groups. As per our discussion of test development in this chapter, each group should make a list of the skills relevant to success in the airline reservation clerk's job. Each group should then rate the importance of these skills on a 5-point scale. Then, develop a test to measure what you believe to be the top-ranked skill. If time permits, the groups should combine the various tests from each group into a test battery. If possible, leave time for a group of students to take the test battery.

Application Case

The Insider

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A federal jury convicted a stock trader who worked for a well-known investment firm, along with two alleged accomplices, of insider trading. According to the indictment, the trader got inside information about pending mergers from lawyers. The lawyers allegedly walked around their law firm picking up information about corporate deals the firm was working on. The lawyers then allegedly passed their information on to a friend, who in turn passed it on to the trader. Such "inside" information reportedly helped the trader (and his investment firm) earn millions of dollars. The trader would then allegedly thank the lawyers, for instance, with envelopes of cash.

Things like that are not supposed to happen. Federal and state laws prohibit them. And investment firms have their own compliance procedures to identify and head off shady trades. The problem is that controlling such behavior once the firm has someone working for it who may be prone to engage in inside trading isn't easy. "Better to avoid hiring such people in the first place," said one pundit.

Over lunch in Manhattan's Tribeca area, the heads of several investment firms were discussing the conviction, and what they could do to make sure something like that didn't occur in their firms. "It's not just compliance," said one. "We've got to keep out the bad apples." They ask you for your advice.

Questions

6-10. We want you to design an employee selection program for hiring stock traders. We already know what to look for as far as technical skills are concerned—accounting courses, economics, and so on. What we want is a program for screening out potential bad apples. To that end, please let us know the following: What sorts of screening test(s) would you suggest, and why? What questions should we add to our application form? Specifically how should we check candidates' backgrounds, and what questions should we ask previous employers and references?

6-11. What else (if anything) would you suggest?

Continuing Case

Carter Cleaning Company

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Honesty Testing

Jennifer Carter, of the Carter Cleaning Centers, and her father have what the latter describes as an easy but hard job when it comes to screening job applicants. It is easy because for two important jobs—the people who actually do the pressing and those who do the cleaning/spotting—the applicants are easily screened with about 20 minutes of on-the-job testing. As with typists, Jennifer points out, "Applicants either know how to press clothes fast or how to use cleaning chemicals and machines, or they don't, and we find out very quickly by just trying them out on the job." On the other hand, applicant screening for the stores can also be frustratingly hard because of the nature of some of the other qualities that Jennifer would like to screen for. Two of the most critical problems facing her company are employee turnover and employee honesty. Jennifer and her father sorely need to implement practices that will reduce the rate of employee turnover. If there is a way to do this through employee testing and screening techniques, Jennifer would like to know about it because of the management time and money that are now being wasted by the never-ending need to recruit and hire new employees. Of even greater concern to Jennifer and her father is the need to institute new practices to screen out those employees who may be predisposed to steal from the company.

Employee theft is an enormous problem for the Carter Cleaning Centers, and not just cash. For example, the cleaner/spotter often opens the store without a manager present, to get the day's work started, and it is not unusual for that person to "run a route." Running a route means that an employee canvasses his or her neighborhood to pick up people's clothes for cleaning and then secretly cleans and presses them in the Carter store, using the company's supplies, gas, and power. It would also not be unusual for an unsupervised person (or his or her supervisor, for that matter) to accept a 1-hour rush order for cleaning or laundering, quickly clean and press the item, and return it to the customer for payment without making out a proper ticket for the item posting the sale. The money, of course, goes into the worker's pocket instead of into the cash register.

The more serious problem concerns the store manager and the counter workers who actually handle the cash. According to Jack Carter, "You would not believe the creativity employees use to get around the management controls we set up to cut down on employee theft." As one extreme example of this felonious creativity, Jack tells the following story: "To cut down on the amount of money my employees were stealing, I had a small sign painted and placed in front of all our cash registers. The sign said: YOUR ENTIRE ORDER FREE IF WE DON'T GIVE YOU A CASH REGISTER RECEIPT WHEN YOU PAY. CALL 552–0235. It was my intention with this sign to force all our cash-handling employees to give receipts so the cash register would record them for my accountants. After all, if all the cash that comes in is recorded in the cash register, then we should have a much better handle on stealing in our stores. Well, one of our managers found a way around this. I came into the store one night and noticed that the cash register this particular manager was using just didn't look right, although the sign was placed in front of it. It turned out that every afternoon at about 5:00 p.m. when the other employees left, this character would pull his own cash register out of a box that he hid underneath our supplies. Customers coming in would notice the sign and, of course, the fact that he was meticulous in ringing up every sale. But unknown to them, for about 5 months the sales that came in for about an hour every day went into his cash register, not mine. It took us that long to figure out where our cash for that store was going."

Here is what Jennifer would like you to answer:

Questions

6-12. What would be the advantages and disadvantages to Jennifer's company of routinely administering honesty tests to all its employees?

6-13. Specifically, what other screening techniques could the company use to screen out theft-prone and turnover-prone employees, and how exactly could these be used?

6-14. How should her company terminate employees caught stealing, and what kind of procedure should be set up for handling reference calls about these employees when they go to other companies looking for jobs?

Translating Strategy into HR Policies and Practices Case*,§

**The overall strategy map on the inside back cover of this text outlines the relationships involved.*

Improving Performance at the Hotel Paris

The New Employee Testing Program

The Hotel Paris's competitive strategy is "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy and boost performance, by eliciting the required employee behaviors and competencies.

As she considered what to do next, Lisa Cruz, the Hotel Paris's HR director, knew that employee selection had to play a role. The Hotel Paris currently had an informal screening process in which local hotel managers obtained application forms, interviewed applicants, and checked their references. However, a pilot project using an employment test for service people at the Chicago hotel had produced startling results. Lisa found consistent, significant relationships between test performance and a range of employee competencies and behaviors such as speed of check-in/out, employee turnover, and percentage of calls answered with the required greeting. She knew that such employee capabilities and behaviors translated into the improved guest service performance the Hotel Paris needed to execute its strategy. She therefore had to decide what selection procedures would be best.

Lisa's team, working with an industrial psychologist, designs a test battery that they believe will produce the sorts of high-morale, patient, people-oriented employees they are looking for. It includes a preliminary, computerized test in which applicants for the positions of

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front-desk clerk, door person, assistant manager, and security guard must deal with an apparently irate guest; a work sample in which front-desk clerk candidates spend 10 minutes processing an incoming "guest"; a personality test aimed at weeding out applicants who lack emotional stability; the Wonderlic test of mental ability; and the Phase II Profile for assessing candidate honesty. Their subsequent validity analysis shows that scores on the test batteries predict scores on the hotel's employee capabilities and behavior metrics. A second analysis confirmed that, as the percentage of employees hired after testing rose, so too did the hotel's employee capabilities and behaviors scores, for instance (see the strategy map), in terms of speed of check-in/out, and the percent of guests receiving the Hotel Paris required greeting.

Lisa and the CFO also found other measurable improvements apparently resulting from the new testing process. For example, it took less time to fill an open position, and cost per hire diminished, so the HR department became more efficient. The new testing program thus did not only contribute to the hotel's performance by improving employee capabilities and behaviors. It also did so by directly improving profit margins and profits.

Questions

6-15. Provide a detailed example of a security guard "work sample" test.

6-16. Provide a detailed example of two personality test items you would suggest they use, and why you would suggest using them.

6-17. Based on what you read here in this Dessler, *Human Resource Management*, chapter, what other tests would you suggest to Lisa, and why would you suggest them?

6-18. How would you suggest Lisa try to confirm that it is indeed the testing and not some other change that accounts for the improved performance?

Writing Assignments

6-19. Explain how you would go about validating a test. How can this information be useful to a manager?

6-20. Explain how digital and social media have changed the employee selection process, and the advice you would give an employer about avoiding problems with using such tools for selection.

Key Terms

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Endnotes

1. Psychologists have called selection and recruitment the "supreme problem." Robert Ployhart et al., "Solving the Supreme Problem: 100 Years of Selection and Recruitment at the Journal of Applied Psychology," *Journal of Applied Psychology* 102, no. 3 (2017), pp. 291–304.
2. See, for example, Jean Phillips and Stanley Gully, *Strategic Staffing* (Upper Saddle River, NJ: Pearson Education, 2012), pp. 234–235.
3. www.pwc.com/us/en/hr, accessed February 24, 2018.
4. "Regret That Bad Hire? It's an Expensive Global Problem," *Bloomberg BNA Bulletin to Management*, June 4, 2013, p. 179. Note that in one survey, about 16% of HR professionals said their firms were less rigorous about checking the backgrounds of executive candidates than nonexecutives. This is a dubious practice, given the high cost of hiring the wrong executive. Genevieve Douglas, "Employers Beware Potential Skeletons in Executives' Closets," *Bloomberg BNA Bulletin to Management*, May 9, 2017.
5. Lauren Weber, "To Get a Job, New Hires Are Put to the Test," *The Wall Street Journal*, April 15, 2015, pp. A1, A10.
6. Even if they use a third party to prepare an employment test, contractors are "ultimately responsible" for ensuring the tests' job relatedness and EEO compliance. "DOL Officials Discuss Contractors' Duties on Validating Tests," *BNA Bulletin to Management*, September 4, 2007, p. 287. Furthermore, enforcement units are increasing their scrutiny of employers who rely on tests and screening. See "Litigation Increasing with Employer Reliance on Tests, Screening," *Bloomberg BNA Bulletin to Management*, April 8, 2008, p. 119. However, see also C. Tuna et al., "Job-Test Ruling Cheers Employers," *The Wall Street Journal*, July 1, 2009, pp. B1–B2.
7. See, for example, Ann Marie Ryan and Marja Lasek, "Negligent Hiring and Defamation: Areas of Liability Related to Pre-Employment Inquiries," *Personnel Psychology* 44, no. 2 (Summer 1991), pp. 293–319. See also Jay Stuller, "Fatal Attraction," *Across the Board* 42, no. 6 (November–December 2005), pp. 18–23. Note that faced with a dearth of applicants, some employers recently have experimented with "open hiring," basically hiring almost everyone who applies. This is dubious for many reasons, including the risk of negligent hiring; Alonzo Martinez, "From Open Hiring To Negligent Hiring: How To Reduce Risk And Promote Inclusivity," Feb. 24, 2020, https://www.forbes.com/sites/alonzomartinez/2020/02/24/from-open-hiring-to-negligent-hiring--how-to-reduce-risk-and-promote-inclusivity/?sh=7db6b76c9f61, accessed August 24, 2022.
8. For example, Ryan Zimmerman, "Wal-Mart to Toughen Job Screening," *The Wall Street Journal*, July 12, 2004, pp. B1–B8. See also Michael Tucker, "Show and Tell," *HR Magazine*, January 2012, pp. 51–52; and Kirsten Grind et al., "Care.com Puts Onus on Families to Check Hires," *The Wall Street Journal*, March 9–10, 2019, pp. A1, A10.
9. Negligent hiring highlights the need to think through what the job's human requirements really are. For example, "nonrapist" isn't likely to appear as a required

knowledge, skill, or ability in a job analysis of an apartment manager, but in situations like this, screening for such tendencies is obviously required. To avoid negligent hiring claims, "make a systematic effort to gain relevant information about the applicant, verify documentation, follow up on missing records or gaps in employment, and keep a detailed log of all attempts to obtain information, including the names and dates for phone calls or other requests." Fay Hansen, "Taking 'Reasonable' Action to Avoid Negligent Hiring Claims," *Workforce Management*, September 11, 2006, p. 31. Similarly, the Employers Liability Act of 1969 holds employers responsible for their employees' health and safety at work. Because personality traits may predict problems such as unsafe behaviors and bullying, this act makes careful employee selection even more advisable.

10. Martin Berman-Gorvine, "Employee Background Checks Have Companies Caught in the Middle," *Bloomberg BNA Bulletin to Management*, June 27, 2017.
11. Kevin Murphy and Charles Davidshofer, *Psychological Testing: Principles and Applications* (Upper Saddle River, NJ: Prentice Hall, 2001), p. 73.
12. Ibid., pp. 116–119.
13. W. Bruce Walsh and Nancy Betz, *Tests and Assessment* (Upper Saddle River, NJ: Prentice Hall, 2001); see also, https://www.eeoc.gov/policy/docs/qanda_clarify_procedures.html, accessed February 26, 2018.
14. Murphy and Davidshofer, *Psychological Testing*, p. 74.
15. Ibid.
16. See James Ledvinka, *Federal Regulation of Personnel and Human Resource Management* (Boston: Kent, 1982), p. 113; and Murphy and Davidshofer, *Psychological Testing*, pp. 154–165.
17. www.siop.org/workplace/employment%20testing/information_to_consider_when_cre.aspx, accessed March 22, 2009.
18. The procedure you would use to demonstrate content validity differs from that used to demonstrate criterion validity (as described in steps 1 through 5). Content validity tends to emphasize judgment. Here, you first do a careful job analysis to identify the work behaviors required. Then combine several samples of those behaviors into a test. A typing and computer skills test for a clerk would be an example. The fact that the test is a comprehensive sample of actual, observable, on-the-job behaviors is what lends the test its content validity.
19. In employment testing, bias has a precise meaning. Specifically, "bias is said to exist when a test makes systematic errors in measurement or prediction." Murphy and Davidshofer, *Psychological Testing*, p. 303.
20. Herman Aguinis, Steven Culpepper, and Charles Pierce, "Revival of Test Bias Research in Preemployment Testing," *Journal of Applied Psychology* 95, no. 4 (2010), p. 648. See also, Krista D. Mattern and Brian F. Patterson, "Test of slope and intercept bias in college admissions: a response to Aguinis, Culpepper, and Pierce (2010)," Journal of Applied Psychology, January 2013, 98(1):134-47.
21. Ibid., p. 305. In one study, screeners preferred candidates with similar political philosophies to their own (the bias being that people lean toward those who are similar to them). Andrew Johnson and Katherine Roberto, "Elections and Selection: The Role of Political Ideology in Selection Decisions," *Human Resource Management Review* 29 (2019), pp. 14–27.
22. Robert Gatewood and Hubert Feild, *Human Resource Selection* (Mason, OH: South-Western, Cengage Learning, 2008), p. 243.
23. This is based on Dave Zielinski, "Effective Assessments," *HR Magazine*, January 2011, pp. 61–64.
24. The Uniform Guidelines say, "Employers should ensure that tests and selection procedures are not adopted casually by managers who know little about these processes . . . no test or selection procedure should be implemented without an understanding of its effectiveness and limitations for the organization, its appropriateness for a specific job, and whether it can be appropriately administered and scored."
25. Phillips and Gully, *Strategic Staffing*, p. 220.
26. Ibid., p. 220.
27. www.uniformguidelines.com/qandaprint.html, accessed July 19, 2013. Conversely, validating a test that suffers from adverse impact may not be enough. Under the Uniform Guidelines, the employer should also find an equally valid *but less adversely impacting* alternative.
28. For a recent discussion, see, for example, Jonathan Cottrell, Daniel Newman, and Glenn Roisman, "Explaining the Black–White Gap in Cognitive Test Scores: Toward a Theory of Adverse Impact," *Journal of Applied Psychology* 100, no. 6 (2015), pp. 1713–1736.
29. A complete discussion of the APA's "Ethical Principles of Psychologists and Code of Conduct" is beyond this text's scope. But points it addresses include competence, integrity, respect for people's dignity, nondiscrimination, and sexual harassment. From "Ethical Principles of Psychologists and Code of Conduct," *American Psychologist* 47 (1992), pp. 1597–1611; and www.apa.org/ethics/code/index.aspx (amended 2010 and 2016) accessed August 24, 2022.
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31. Kenneth Sovereign, *Personnel Law* (Upper Saddle River, NJ: Prentice Hall, 1999), pp. 204–206.
32. Weber, "To Get a Job, New Hires Are Put to the Test."
33. Steffanie Wilk and Peter Capelli, "Understanding the Determinants of Employer Use of Selection Methods," *Personnel Psychology* 56 (2003), p. 117. For an example of tests for top managers, see, for example, https://www.criteriacorp.com/solution/pre_employment_testing_for_general_and_operations_managers.php, accessed February 26, 2018.
34. Kevin Hart, "Not Wanted: Thieves," *HR Magazine*, April 2008, p. 119; Sarah Needleman, "Businesses Say Theft by Their Workers Is Up," *The Wall Street Journal*, December 11, 2008, p. B8; and "Detecting and Preventing Employee Theft: The Ultimate Guide," https://www.i-sight.com/resources/detecting-and-preventing-employee-theft-the-ultimate-guide/#screen, accessed August 24, 2022.
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Graham Jepson/Alamy Stock Photo

7 Interviewing Candidates

WHERE ARE WE NOW . . .

Chapter 6 discussed important tools managers use to select employees. Now we'll turn to one of these tools—the employment interview. The main topics we'll cover include **Basic Types of Interviews**; **Avoiding Errors That Can Undermine an Interview's Usefulness**; **How to Design and Conduct an Effective Interview**; **Employee Engagement Guide for Managers**; and **Developing and Extending the Job Offer**. In Chapter 8, we'll turn to training the new employee.

If the interview is just one of several selection tools, why devote a whole chapter to it? Because interviews are the most widely used selection procedure, and most people aren't nearly as good at interviewing as they think they are.[1]

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

7-1 **Give** examples of the main types of selection interviews.

7-2 **Give** examples of the main errors that can undermine an interview's usefulness.

7-3 **Define** a structured situational interview, and explain how to conduct effective selection interviews.

7-4 **Give** examples of how to use employee selection to improve employee engagement.

7-5 **List** the main points in developing and extending the actual job offer.

When it comes to hiring, Urban Outfitters knows just what it's looking for.[2] The lifestyle retailer has over 200 stores in the United States, Canada, and Europe. It built its strategy around fostering a culture of creativity and individuality in its stores. Its managers know that maintaining such a culture requires employees who are committed to its core values of community, pride, creativity, and respect. The question is, how do you find and attract such applicants, while controlling hiring costs in the competitive retail industry?

LEARNING OBJECTIVE 7-1

Give examples of the main types of selection interviews.

Basic Types of Interviews

Managers use several interviews at work, such as performance appraisal interviews and exit interviews. A *selection interview* (the focus of this chapter) is a selection procedure designed to predict future job performance based on applicants' oral responses to oral inquiries.[3] Many techniques in this chapter also apply to appraisal and exit interviews. However, we'll postpone discussions of those two interviews until later chapters.

There are several ways to conduct selection interviews. For example, we can classify selection interviews according to

1. How *structured* they are
2. Their "content"—the *types of questions* they contain
3. How the firm *administers* the interviews (for instance, one-on-one or via a committee)

Each has pros and cons. We'll look at each.

Structured versus Unstructured Interviews

unstructured (or nondirective) interview
An unstructured conversational-style interview in which the interviewer pursues points of interest as they come up in response to questions.

structured (or directive) interview
An interview following a set sequence of questions.

First, most interviews vary in the degree to which the interviewer structures the interview process.[4] In **unstructured (or nondirective) interviews**, the manager follows no set format. A few questions might be specified in advance, but they're usually not, and there is seldom a formal guide for scoring "right" or "wrong" answers. Typical questions here might include, for instance, "Tell me about yourself," "Why do you think you'd do a good job here?" and "What would you say are your main strengths and weaknesses?" Some describe this as little more than a general conversation.[5]

At the other extreme, in **structured (or directive) interviews**, the employer lists questions ahead of time and may even weight possible alternative answers for appropriateness.[6] McMurray's Patterned Interview was one early example. The interviewer used a printed form to ask a series of questions, such as "How was the person's present job obtained?" Comments printed beneath the questions (such as "This person has shown self-reliance in getting his/her jobs?") then help the interviewer evaluate the answers. Some experts still restrict the term "structured interview" to interviews like these. They are based on carefully selected job-related questions with predetermined answers.

But in practice, interview structure is a matter of degree. Sometimes the manager may just want to ensure there's a list of questions to ask so as to avoid skipping any questions. Here, the manager might choose questions from a list like that in Figure 7-3. The structured interview guide in Figure 7A-1 (in the chapter appendix) illustrates a more structured approach. As another example, the Department of Homeland Security uses the structured guide in Figure 7-1 to help screen Coast Guard officer candidates. It includes a formal candidate rating procedure.[7]

Structured interviews are generally best.[8] In such interviews, all interviewers generally ask all applicants the same questions. Partly because of this, these interviews tend to be more consistent, reliable, and valid. Having a standardized list of questions can also help less talented interviewers conduct better interviews. Standardizing the interview also enhances job relatedness (assuming the questions provide insights into how the person will actually do the job), reduces overall subjectivity (and thus the potential for bias), and may "enhance the ability to withstand legal challenge."[9] However, blindly following a structured format may not provide enough opportunity to pursue points of interest. The interviewer should always be able to ask follow-up questions and pursue points as they develop. We'll see how to create a structured interview later in this chapter.

Interview Content (What Types of Questions to Ask)

We can also classify interviews based on the "content" or the types of questions interviewers ask. Many interviewers ask relatively unfocused questions, such as "What do you want to be doing in 5 years?" Questions like these usually don't provide much insight into how the person will do on the job. That is why *situational, behavioral*, and *job-related* questions are best.

situational interview
A series of job-related questions that focus on how the candidate would behave in a given situation.

behavioral interview
A series of job-related questions that focus on how the candidate reacted to actual situations in the past.

In a **situational interview**, you ask the candidate what their behavior *would be* in a given situation.[10] For example, ask supervisory candidates how they would act in response to a subordinate coming to work late 3 days in a row.

Whereas situational interviews ask applicants to describe how they *would* react to a hypothetical situation today or tomorrow, **behavioral interviews** ask applicants to describe *how they reacted* to actual situations in the past.[11] *Situational* questions start with phrases such as, "Suppose you were faced with the following situation. . . . What would you do?" *Behavioral* questions start with phrases like, "Can you think of a time when. . . . What did you do?"[12] In one variant, Vanguard uses an interviewing technique it calls STAR. Vanguard managers ask interviewees about a particular situation (S) or task (T) they faced to uncover the actions (A) the candidates took, and the results (R) of their actions.[13] (Whether situational or behavioral, studies suggest that

FIGURE 7-1 Officer Programs Applicant Interview Form

Source: From Officer Programs Applicant Interview Form CG_5527, https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwjbvJH0yO71AhW7kIkEHV_zDpAQFnoECAMQAQ&url=https%3A%2F%2Fmedia.defense.gov%2F2020%2FOct%2F26%2F2002524100%2F-1%2F-1%2F0%2FCG_5527A.PDF&usg=AOvVaw0G2qlq4E3OlgdA1zoKecWF, accessed February 7, 2022.

U.S. Department of Homeland Security
CG-5527 (06-04)

Officer Programs Applicant Interview Form

1. Date:

2. Name of Applicant (Last, First, MI)

3. **Overall Impression:** Compare this applicant to others you have interviewed or known. (Note: Scores of 4 through 7 constitute a recommendation for selection.)

NOT RECOMMENDED			RECOMMENDED			
Unsatisfactory 1☐	Limited Potential 2☐	Fair Performer 3☐	Good Performer 4☐	Excellent Performer 5☐	Exceptional Performer 6☐	Distinguished Performer 7☐

Comments:

4. **Performance of Duties:** Measures an applicant's ability to manage and to get things done.

Unsatisfactory 1☐ Limited Potential 2☐ Fair Performer 3☐ Good Performer 4☐ Excellent Performer 5☐ Exceptional Performer 6☐ Distinguished Performer 7☐

Comments:

5. **Communication Skills:** Measures an applicant's ability to communicate in a positive, clear, and convincing manner.

Unsatisfactory 1☐ Limited Potential 2☐ Fair Performer 3☐ Good Performer 4☐ Excellent Performer 5☐ Exceptional Performer 6☐ Distinguished Performer 7☐

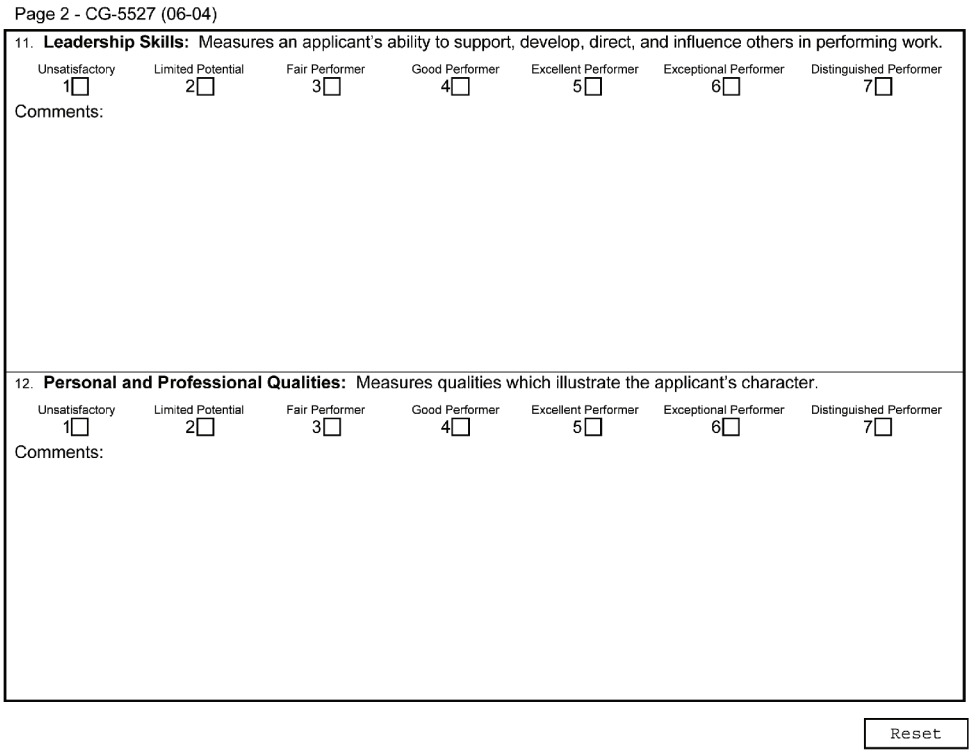
Comments:

6. Names of Board Members	7. Rank	8. Command/Unit	9. Signature	10. Career Total of Interviews Conducted

PREVIOUS EDITIONS ARE OBSOLETE *CONTINUED ON REVERSE*

Reset

FIGURE 7-1 ***Continued***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11. **Leadership Skills:** Measures an applicant's ability to support, develop, direct, and influence others in performing work.

Unsatisfactory 1☐ Limited Potential 2☐ Fair Performer 3☐ Good Performer 4☐ Excellent Performer 5☐ Exceptional Performer 6☐ Distinguished Performer 7☐

Comments:

12. **Personal and Professional Qualities:** Measures qualities which illustrate the applicant's character.

Unsatisfactory 1☐ Limited Potential 2☐ Fair Performer 3☐ Good Performer 4☐ Excellent Performer 5☐ Exceptional Performer 6☐ Distinguished Performer 7☐

Comments:

Reset

more specific questions are best. For example, rather than just asking about results, ask about the results "you believe are most pertinent", such as quarterly profits, or building collaboration.)[14]

Behavioral interviews are popular.[15] When Citizen's Banking Corporation in Flint, Michigan, found that 31 of the 50 people in its call center quit in one year, the center's head switched to behavioral interviews. Many who left did so because they didn't enjoy irate questions from clients. So she no longer tries to predict how candidates will act based on asking them if they want to work with angry clients. Instead, she asks behavioral questions like, "Tell me about a time you were speaking with an irate person, and how you turned the situation around." This makes it harder to fool the interviewer; only four people left in the following year.[16]

Bain & Company uses case interviews as part of its candidate selection process. They have candidates explain how they would address the case "client's" problems. This case interview combines behavioral and situational questioning to provide a more realistic assessment of the candidate's consulting skills.

job-related interview
A series of job-related questions that focus on relevant past job-related behaviors.

stress interview
An interview in which the applicant is made uncomfortable by a series of often rude questions. This technique helps identify hypersensitive applicants and those with low or high stress tolerance.

OTHER TYPES OF QUESTIONS In a **job-related interview**, the interviewer asks applicants questions about job-relevant past experiences. The questions here don't revolve around hypothetical or actual situations or scenarios. Instead, the interviewer asks questions such as, "Which finance courses did you like best in business school?" The aim is to draw conclusions about, say, the candidate's ability to handle the job's financial aspects.

There are other, lesser-used types of questions. In a **stress interview**, the interviewer seeks to make the applicant uncomfortable with occasionally rude questions. The aim is supposedly to spot sensitive applicants and those with low (or high) stress tolerance. Thus, a candidate for customer relations manager who obligingly mentions having had four jobs in the past 2 years might be told that frequent job changes reflect irresponsible and immature behavior. If the applicant then responds with a reasonable explanation of why the job changes were necessary, the interviewer might pursue another topic. On the other hand, if the formerly tranquil applicant reacts explosively, the interviewer might deduce that the person has a low tolerance for stress.

The stress interview's invasive and ethically dubious nature demands that the interviewer be both skilled in its use and sure the job really requires handling stress. This is definitely not an approach for amateur interrogators, or for those without the skills to keep the interview under control.

Puzzle questions are popular. Recruiters see how candidates think under pressure. For example, an interviewer at Microsoft asked a tech service applicant this: "Mike and Todd have $21 between them. Mike has $20 more than Todd does. How much money has Mike, and how much money has Todd?"[17] (The answer is two paragraphs below.)

HR in Action at the Hotel Paris As an experienced HR professional, Lisa knew that the company's new testing program would go only so far. To see how the Hotel Paris created a new interview process, see the case at the end of this chapter.

How Should We Conduct the Interview?

Employers also administer interviews in various ways: *one-on-one or by a panel of interviewers, sequentially or all at once, computerized or personally,* or *online.*

Most selection interviews are probably still *one-on-one* and *sequential.* In a one-on-one interview, two people meet alone, and one interviews the other by seeking oral responses to oral inquiries. Employers tend to schedule these interviews *sequentially.* In a *sequential (or serial) interview*, several persons interview the applicant, in sequence, one-on-one, and then make their hiring decision. In an **unstructured sequential interview**, each interviewer generally just asks questions as they come to mind. In a **structured sequential interview**, each interviewer rates the candidates on a standard evaluation form, using standardized questions. The hiring manager then reviews these ratings before deciding whom to hire.[18] (Answer: Mike had $20.50, Todd $0.50.)

unstructured sequential interview
An interview in which each interviewer forms an independent opinion after asking different questions.

structured sequential interview
An interview in which the applicant is interviewed sequentially by several persons; each rates the applicant on a standard form.

A **panel interview**, also known as a board interview, is an interview conducted by a team of interviewers (usually two to three); they together question each candidate and then combine their ratings of each candidate's answers into a final panel score. This approach contrasts with the *one-on-one interview* (in which one interviewer meets one candidate), and a *serial interview* (where several interviewers assess a single candidate one-on-one, sequentially).[19]

panel interview
An interview in which a group of interviewers questions the applicant.

The panel format enables interviewers to ask follow-up questions, much as reporters do in press conferences. This may elicit more meaningful responses than a series of one-on-one interviews. On the other hand, some candidates find panel interviews more stressful, so they may actually inhibit responses. (An even more stressful variant is the **mass interview**. Here a panel interviews several candidates simultaneously. The panel might pose a problem, and then watches to see which candidate takes the lead in formulating an answer.)

mass interview
A panel interviews several candidates simultaneously.

Whether panel interviews are more or less reliable and valid than sequential interviews depends on how the employer actually does the panel interview. For example, *structured* panel interviews in which members use scoring sheets with descriptive scoring examples for "good" and "bad" sample answers are more reliable and valid than those that don't. And training the panel interviewers may boost interview reliability.[20]

For better or worse, some employers use "speed dating" interviewing. One sent e-mails to all applicants for an advertised position. Four hundred (of 800 applicants) showed up. Over several hours, applicants first mingled with employees, and then (in a so-called speed dating area) had one-on-one contacts with employees for a few minutes each. Based on this, the recruiting team chose 68 candidates for follow-up interviews.[21]

PHONE INTERVIEWS Employers also conduct interviews via phone. Somewhat counterintuitively, these can actually be more useful than face-to-face interviews for judging one's conscientiousness, intelligence, and interpersonal skills. Because they needn't worry about appearance or handshakes, each party can focus on answers. And perhaps candidates—somewhat surprised by an unplanned call from the recruiter—give more spontaneous answers.[22] In one study, interviewers tended to evaluate applicants more favorably in telephone versus face-to-face interviews, particularly where interviewees were less physically attractive. The applicants preferred the face-to-face interviews.[23]

COMPUTERIZED JOB INTERVIEWS In a *computerized selection interview* a job candidate's oral and/or keyed replies are automatically obtained in response to computerized oral, visual, and/or written questions and/or situations. Most such interviews present a series of multiple-choice questions regarding background, experience, education, skills, knowledge, and work attitudes. Some confront candidates with realistic scenarios (such as irate customers) to which they must respond.[24]

VIRTUAL/VIDEO INTERVIEWS Employer use of virtual interviews rose fast the past few years. About 18% of employers reported using them about ten years ago,[25] while 82% use them today, and 93% say they'll continue doing so.[26]

Here employers rely on a range of technologies. These include phone and tablet functionalities like Vroom™, Skype™ Microsoft Teams, Cisco Webex Meetings, and Google Hangouts Meet.[27] College career centers and outplacement firms use the Interviewstream video interview system, to have students or job seekers record interviews for their own development and for prospective employers.[28] Interviewstream, Inc. (www.interviewstream.com) offers employer clients prerecorded and live video interview management systems for prescreening candidates and interviewing remote talent. Or, the client and candidate can use interviewstream's live video conference platform for a live interview. Employers including Microsoft have used the virtual community Second Life to conduct job interviews. Job seekers create avatars to represent themselves.[29] And as explained in Chapter 6, HireVue's software analyzes its clients' past video employment interviews for signs like facial expressions and voice modulation, to determine which behaviors predict suitability for jobs.[30]

Hilton Worldwide recruits in 94 countries, so distances often make in-person interviews impractical. Online video interviews make it easy for Hilton to do initial screening interviews.[31] Another firm's CEO conducts initial screening interviews via text-only chats or instant messaging because, he says, it reduces potential distractions like gender, ethnicity, and body language.[32]

A virtual interview requires little special preparation for employers, but Career FAQs (www.careerfaqs.com.au) lists things that *interviewees* should keep in mind. It's often the obvious things people overlook (for more on how to take interviews, see Appendix 2 to this chapter):[33]

- ***Look presentable.*** It might seem strange sitting at home in a suit, but it could make a difference.
- ***Clean up the room.*** Do not let the interviewer see clutter.
- ***Test first.*** As Career FAQs says, "Five minutes before the video interview is not a good time to realize that your Internet is down . . . "
- ***Do a dry run.*** Record yourself before the interview to see how you're "coming across."
- ***Relax.*** The golden rule with such interviews is to treat them like face-to-face meetings. Smile, look confident and enthusiastic, make eye contact, and don't shout, but do speak clearly.

The Strategic Context: Asynchronous Interviews at Urban Outfitters

Asynchronous virtual interviews let interviewees "do" the interview at their leisure, from wherever they are. Then the hiring managers separately review the interviews, at their leisure.[34]

As one example, Urban Outfitters seeks store employees who share its core values of Community, Pride, Creativity, and Respect.[35] How does it find and attract such applicants, while controlling hiring costs in the competitive retail industry? Because it receives so many applications, the company first used group interviews for selecting sales associates. Retail managers would interview six to eight candidates at once, in a group (or mass) interview. Store managers didn't think this was a good fit for Urban Outfitter's culture, though.

Urban Outfitters switched to HireVue on-demand interviews in its 200 retail stores. The HireVue system lets applicants watch videos about Urban Outfitters and the job.

Then they respond in writing and by video to Urban's interview questions and instructions at their leisure, "on demand." The hiring managers then review the recorded interviews, usually outside of peak business hours when the stores weren't as busy.

The new system reportedly has been a boon to Urban Outfitters. It reduced screening time by 80%, lets store managers process many more applicants, and is preferred by applicants: 90% do their interviews after hours.

The HireVue system also helps support Urban Outfitters' strategy. As the company says:

> Moving to digital interviewing has transformed our hiring process into a true reflection of the Urban Outfitters culture. Our value in creativity and community and our nonconformist approach now begins with our candidate experience. No other initiative has impacted our hiring teams like digital recruiting has.[36]

THE NEW NORMAL

10 Remote-Work Questions to Ask and Expect

Virtual interviews (either synchronous or asynchronous) are especially useful for selecting employees who will be working remotely. Today, with many people spending some or all of their time working that way, one should be prepared to ask (and to expect) questions like the following about working remotely.[37]

1. Have you worked remotely in the past?
2. If you have worked remotely, what were some of the challenges you faced?
3. Why do you want to work from home?
4. What types of remote/distributed team tools and software have you used, and how did you use them?
5. How do you balance your work and personal schedules?
6. What systems or apps do you use to stay organized?
7. How would you handle a problem if your remote team was offline?
8. How do you manage your time and stay organized?
9. Tell me about a time when you weren't sure how to do something. How did you go about seeking out information?
10. Tell me about a time when you had a conflict with a remote coworker. How did you handle it? ■

LEARNING OBJECTIVE 7-2

Give examples of the main errors that can undermine an interview's usefulness.

Avoiding Errors That Can Undermine an Interview's Usefulness

Interviews hold an ironic place in the hiring process: Everyone uses them, but they're generally not particularly valid. The key is to do them properly. If you do, then the interview is generally a good predictor of performance, comparable with other selection techniques.[38] Keep three things in mind—use structured interviews, know what to ask, and avoid the common interviewing errors.

First, *structure the interview.*[39] Structured interviews (particularly structured interviews using situational questions) are more valid than unstructured interviews for predicting job performance. They are more valid partly because they are more reliable—for example, the interviewer administers the interview consistently from candidate to candidate.[40] *Situational* structured interviews yield a higher mean validity than do job-related (or behavioral) interviews. In turn, job-related and behavioral interviews yield a higher mean validity than do "psychological" interviews (which focus on motives and interests).[41]

Second, interviews are better at revealing some things than others, so *know what to ask.* For one thing, given the relatively high validities of situational and job-related interviews, focus more on situational and job knowledge questions; these help you

assess how the candidate will actually react to typical situations on the job. Similarly, some traits may be more easily unearthed than others. In one study, interviewers were able to size up the interviewee's extroversion and agreeableness. What they could *not* assess accurately were important traits like conscientiousness and emotional stability.[42] And interview questions such as "Describe the work environment or culture in which you are most productive and happy" may help unearth cultural fit.[43]

Third, effective employment interviewers understand and avoid the following *common interview errors*.[44] (Note that these errors can be insidious. In other words, interviewers may have no idea they're subject to or making the error. For example, few people realize they're making snap judgments based on flimsy evidence. And fewer probably realize how their biases are distorting their judgment).

First Impressions (Snap Judgments)

Interviewers tend to jump to conclusions—make snap judgments—about candidates during the first few minutes of the interview (or even before it starts, based on test scores or résumés). One researcher estimates that in 85% of the cases, interviewers had made up their minds before the interview even began, based on first impressions gleaned from candidates' applications and personal appearance.[45] In one study, giving interviewers the candidates' test scores biased the candidates' ultimate assessments.[46] Even structured interviews are usually preceded by a brief discussion, and the first impressions here can contaminate even a structured interview's results.[47]

First impressions are especially damaging when the first impression is negative. In one study, interviewers who previously received unfavorable reference letters about applicants gave those applicants less credit for past successes and held them more responsible for past failures after the interview. And the interviewers' decisions to accept or reject those applicants *always* reflected what they expected of the applicants based on the references, quite aside from how the applicants did on the actual interview.[48]

Add to this two more interviewing facts. First, interviewers are more influenced by unfavorable than favorable information about the candidate. Second, their impressions are much more likely to change from favorable to unfavorable than from unfavorable to favorable. Indeed, many interviewers mostly search for negative information, often without realizing it.[49]

The bottom line is that most interviews are loaded against applicants. One who starts well could easily end up with a low rating because unfavorable information predominates. And for the interviewee who starts out poorly, it's almost impossible to overcome that first bad impression.[50] One psychologist interviewed CEOs of 80 top companies. She concluded that you "don't even get to open your mouth."[51] Instead, the interviewer will size up your posture, handshake, smile, and "captivating aura." It's difficult to overcome that first impression. (One suggestion: if possible, have a brief phone interview first).[52]

Not Clarifying What the Job Requires

Interviewers who don't have an accurate picture of what the job entails and the sort of candidate that's best for it usually make their decisions based on incorrect stereotypes of what a good applicant is. They then erroneously match interviewees with their incorrect stereotypes. You should clarify what sorts of traits you're looking for, and why, before starting the interview.

One classic study involved 30 professional interviewers.[53] Half got just this brief job description: "the eight applicants here represented by their application blanks are applying for the position of secretary." The other interviewers got much more explicit job information, including bilingual ability, for instance.

More job knowledge translated into better interviews. The 15 interviewers with more job information generally all agreed about each candidate's potential; those without it did not. The latter also didn't discriminate as well among applicants—they tended to give them all high ratings. (What screeners actually look for is another matter. A researcher spoke with 120 hiring decision makers. She found that most of them were actually looking for "personal chemistry," in terms of having things like backgrounds and hobbies that matched their own.)[54]

Candidate-Order (Contrast) Error and Pressure to Hire

candidate-order (or contrast) error
An error of judgment on the part of the interviewer due to interviewing one or more very good or very bad candidates just before the interview in question.

Candidate-order (or contrast) error means that the order in which you see applicants affects how you rate them. In one study, managers had to evaluate a sample candidate who was "just average" after first evaluating several "unfavorable" candidates. They scored the average candidate more favorably than they might otherwise because, in contrast to the unfavorable candidates, the average one looked better than he actually was. This contrast effect can be huge: In some early studies, evaluators based only a small part of the applicant's rating on his or her actual potential.[55]

Pressure to hire accentuates this problem. Researchers told one group of managers to assume they were behind in their recruiting quota. They told a second group they were ahead. Those "behind" rated the same recruits more highly.[56] Similarly, unconscious biases can translate into unfavorable ratings for candidates, and in turn lead to rating the following, "just average," candidate more highly than is warranted.

Nonverbal Behavior and Impression Management

The applicant's nonverbal behavior (smiling, avoiding your gaze, and so on) can affect his or her rating. In one study, 52 human resource specialists watched videotaped job interviews in which *the applicants' verbal content was identical*, but their nonverbal behavior differed markedly. Researchers told applicants in one group to exhibit minimal eye contact, a low energy level, and low voice modulation. Those in a second group demonstrated the opposite behavior. Twenty-three of the 26 personnel specialists who saw the high-eye-contact, high-energy candidate would have invited him or her for a second interview. None who saw the low-eye-contact, low-energy candidate would have recommended a second interview.[57] So, it pays interviewees to "look alive."

Nonverbal behaviors are probably so important because interviewers infer your personality from how you behave in the interview. In one study, 99 graduating college seniors completed questionnaires that included measures of personality, among other things. The students then reported their success in generating follow-up interviews and job offers. The interviewee's personality, particularly level of extroversion, had a big influence on whether that person received follow-up interviews and job offers.[58] Furthermore, extroverted applicants seem particularly prone to self-promotion, and self-promotion is strongly related to interviewers' perceptions of candidate–job fit.[59] Even structuring the interview doesn't help;[60] as one study concludes, "No matter how much an interview is structured, nonverbal cues cause interviewers to make attributions about candidates."[61]

IMPRESSION MANAGEMENT Clever candidates capitalize on that fact. One study found that some used ingratiation to persuade interviewers to like them. For instance, the candidates praised the interviewers or appeared to agree with their opinions, thus signaling they shared similar beliefs. Sensing that a perceived similarity in attitudes may influence how the interviewer rates them, some interviewees try to emphasize (or fabricate) such similarities.[62] Others make self-promoting comments about their accomplishments.[63] Self-promotion means promoting one's own skills and abilities to create the impression of competence.[64] Psychologists call using techniques like ingratiation and self-promotion "impression management." Most interviewers aren't likely to know they're being misled.[65] Self-promotion can be an effective tactic, but faking or lying generally backfires.[66]

Effect of Personal Characteristics: Attractiveness, Gender, Race

Unfortunately, physical attributes also distort assessments.[67] For example, people often ascribe more favorable traits and more successful life outcomes to attractive people.[68]

Similarly, race can play a role, depending on how you conduct the interview. For one thing people tend to look for people like themselves when they interview.[69] In one study, the White members of a racially balanced interview panel rated White candidates higher, while the Black interviewers rated Black candidates higher. But in all cases, *structured* interviews produced less of a difference between minority and White

interviewees than did unstructured ones.[70] One study concludes, " . . . structured interviews can minimize or eliminate potential bias with respect to demographic similarity between applicants and interviewers."[71]

The use of employment discrimination "testers" makes nondiscriminatory interviewing even more important. The EEOC says testers are "individuals who apply for employment which they do not intend to accept, for the sole purpose of uncovering unlawful discriminatory hiring practices."[72] Although not really seeking employment, testers have legal standing with the courts and EEOC.[73]

Bias does affect results. One civil rights group sent four university students—two White, two Black—to an employment agency, supposedly in pursuit of a job. The civil rights group gave the four "testers" backgrounds and training to make their qualifications appear almost identical. The White tester/applicants got interviews and job offers. The Black tester/applicants got neither interviews nor offers.[74] To help reduce the effects of bias, use structured interviews, bring your biases to the conscious level, consider conducting initial (relatively anonymous) quick telephone interviews first, and wait before jumping to a conclusion.[75]

DIVERSITY COUNTS

Applicant Disability and the Employment Interview

In general, candidates evidencing various attributes and disabilities (such as child-care demands, HIV-positive status, or being wheelchair-bound) have less chance of obtaining a positive decision, even when they perform well in a structured interview.[76] In one study, the researchers manipulated the candidates' appearance, for instance "by placing scar-like marks on the cheeks of some of the applicants for some interviews, but not for others." Results revealed that managers who interviewed a facially stigmatized applicant (versus a nonstigmatized applicant) "rated the applicant lower [and] recalled less information about the interview" (in part, apparently, because staring at the "scars" distracted the interviewers).[77] One study found structured interviews to be more favorable for those with disabilities, however.[78]

Another study surveyed 40 people with disabilities, from various occupations. The people felt that interviewers tend to avoid directly addressing the disability, and therefore made their decisions without all the facts.[79]

The 40 people said they prefer a discussion that lets the employer address his or her concerns and reach a knowledgeable conclusion. Among the questions they said they would like interviewers to ask were these: Is there any kind of setting or special equipment that will facilitate the interview process for you? Is there any specific technology that you currently use or have used that assists the way you work? What other kind of support did you have in previous jobs? Is there anything that would benefit you? Discuss a barrier or obstacle, if any, that you have encountered in any of your previous jobs. How was that addressed? And, do you anticipate any transportation or scheduling issues with the position's work schedule? ■

Interviewer Behavior

Finally, the list of ways in which *interviewers* themselves wreck interviews is boundless. For example, some interviewers inadvertently telegraph the expected answers, as in: "This job involves a lot of stress. You can handle that, can't you?" Even subtle cues (like a smile or nod) can telegraph the desired answer.[80] Some interviewers talk so much that applicants can't answer questions. At the other extreme, some interviewers let the applicant dominate the interview. When interviewers have favorable preinterview impressions of the applicant, they tend to act more positively toward that person (smiling more, for instance).[81] Other interviewers play interrogator, gleefully pouncing on inconsistencies. Some interviewers play amateur psychologist, unprofessionally probing for hidden meanings in what the applicant says. Others ask discriminatory questions.[82]

In summary, interviewing errors to avoid include:

- First impressions (snap judgments)
- Not clarifying what the job involves and requires
- Candidate-order error and pressure to hire
- Nonverbal behavior and impression management
- The effects of interviewees' personal characteristics
- The interviewer's inadvertent behaviors

We'll address what *interviewees* can do to apply these findings and to excel in the interview in Appendix 2 to this chapter.

LEARNING OBJECTIVE 7-3

Define a structured situational interview, and explain how to conduct effective selection interviews.

How to Design and Conduct an Effective Interview

structured situational interview
A series of job-relevant questions with predetermined answers that interviewers ask of all applicants for the job.

There is little doubt that the **structured situational interview**—a series of job-relevant questions with predetermined answers that interviewers ask of all applicants for the job—produces superior results.[83] The basic idea is to (1) write situational (what would you do), behavioral (what did you do), or job knowledge questions, *and* (2) have job experts (like those supervising the job) write several answers for each of these questions, rating the answers from good to poor. (A knowledge question for a social media marketing job would be: "How would you measure the success of your social campaigns?" A situational question would be, "There's a crisis on one of our social media channels. How do you handle it?" A behavioral question is, "Tell me about a successful social campaign you've run.")[84] The people (usually a panel of two to three) who interview the applicants then use rating sheets anchored with examples of good or bad answers to rate interviewees' answers.

Designing a Structured Situational Interview

The procedure is as follows.[85]

Step 1: **Analyze the job.** Write a job description including: a list of job duties; required knowledge, skills, and abilities; and other worker qualifications.

Step 2: **Rate the job's main duties.** Rate each job duty, say from 1 to 5, based on how important it is to the job.

Step 3: **Create interview questions.** Create situational, behavioral, and job knowledge interview questions for each job duty, with more questions for the important duties. The people who create the questions usually write them as critical incidents. For example, to probe for conscientiousness, the interviewer might ask this situational question:

> Your spouse and two teenage children are sick in bed with colds. There are no relatives or friends available to look in on them. Your shift starts in 3 hours. What would you do?

Step 4: **Create benchmark answers.** Next, *for each question*, develop ideal (benchmark) answers for good (a 5 rating), marginal (a 3 rating), and poor (a 1 rating) answers. The structured interview guide (see Figure 7A.1) presents an example. Three benchmark answers (from low to high) for the example question in step 3 might be, "I'd stay home—my spouse and family come first" (1); "I'd phone my supervisor and explain my situation" (3); and "Because they only have colds, I'd come to work" (5).

Step 5: **Appoint the interview panel and conduct interviews.** Employers generally conduct structured situational interviews using a panel, rather than one-on-one. Panels usually consist of two or three members, preferably those who wrote the questions and answers. They may also include the job's supervisor and/or incumbent, and an HR representative. The same panel interviews all candidates for the job.[86]

The panel members review the job description, questions, and benchmark answers before the interview. One panel member introduces the applicant, and asks all questions of all applicants in this and succeeding candidates' interviews (to ensure consistency).

However, all panel members record and rate the applicant's answers on the rating sheet (see Figure 7A.1), by indicating where the candidate's answer to each question falls relative to the benchmark poor, marginal, or good answers. At the end of the interview, someone answers any questions the applicant has.[87]

Web-based programs help interviewers design and organize behaviorally based selection interviews. For example, SelectPro (www.selectpro.net) enables interviewers to create behavior-based selection interviews, custom interview guides, and automated online interviews.

HR Tools for Line Managers and Small Businesses: Additional Guidelines for How to Conduct an Effective Interview

You may not have the time or inclination to create a structured situational interview. However, there is still much you can do to make your interviews systematic.

Step 1: First, know the job. Don't start the interview unless you understand the job's duties and what human skills you're looking for. Study the job description.

Step 2: Structure the interview. *Any* structuring is better than none. If pressed for time, you can still do several things to ask more consistent and job-relevant questions, without developing a full-blown structured interview.[88] For example:[89]

- Base questions on *actual job duties.* This will minimize irrelevant questions.
- Use *job knowledge, situational, or behavioral questions*. Questions that simply ask for opinions and attitudes, goals and aspirations, and self-evaluations allow candidates to present themselves in an overly favorable manner or avoid revealing weaknesses.[90] Figure 7-2 illustrates structured questions.
- *Use the same questions* with all candidates. This improves reliability. It also reduces bias by giving all candidates the same opportunity.
- For each question, if possible, *have several ideal answers* and a score for each. Then rate each candidate's answers against this scale.
- If possible, use an *interview form.* Interviews based on structured guides like the ones in Figure 7-1 or Figure 7A-1, (the "Structured Interview Guide") usually result in better interviews.[91] At least list your questions before the interview.

Step 3: Get organized. Hold the interview in a private place to minimize interruptions. Prior to the interview, review the candidate's application and résumé. Note any areas that are vague or that may indicate strengths or weaknesses.

Step 4: Establish rapport. The main reason for the interview is to find out about the applicant. Start by putting the person at ease. Greet the candidate, and

FIGURE 7-2 Examples of Questions That Provide Interview Structure

Job Knowledge Questions

1. What steps would you follow in changing the fan belt on a Toyota Camry?
2. What factors would you consider in choosing a computer to use for work?

Experience Questions

3. What experience have you had actually repairing automobile engines?
4. What experience have you had creating marketing programs for consumer products?

Behavioral (Past Behavior) Questions

5. Tell me about a time when you had to deal with a particularly obnoxious person. What was the situation, and how did you handle it?
6. Tell me about a time when you were under a great deal of stress. What was the situation, and how did you handle it?

Situational (What Would You Do) Questions

7. Suppose your boss insisted that a presentation had to be finished by tonight, but your subordinate said she has to get home early to attend an online class, so she is unable to help you. What would you do?
8. The CEO just told you that he's planning on firing your boss, with whom you are very close, and replacing him with you. What would you do?

start the interview by asking a noncontroversial question, perhaps about the weather that day.

Step 5: Ask questions. Try to follow the situational, behavioral, and job knowledge questions you wrote out ahead of time. (That notwithstanding, glassdoor.com says that "What are your strengths" is still the top [of 50] job interview questions asked.)[92] Figure 7-3 contains a list of popular questions. And remember that many states and municipalities now ban asking about job applicant pay history.[93] Also, in asking your questions:

Don't telegraph the desired answer.
Don't interrogate the applicant as if the person is on trial.
Don't monopolize the interview, nor let the applicant do so.
Do ask open-ended questions.
Do encourage the applicant to express thoughts fully.
Do draw out the applicant's opinions and feelings by repeating the person's last comment as a question (e.g., "You didn't like your last job?").
Do ask for examples.[94]
Do ask, "If I were to arrange for an interview with your boss, what would your boss say are your strengths, weaker points, and overall performance?"[95]

Step 6: Take brief, unobtrusive notes during the interview. This helps avoid making a snap decision early in the interview and may help jog your memory once the interview is over. Jot down the key points of what the interviewee says.[96]

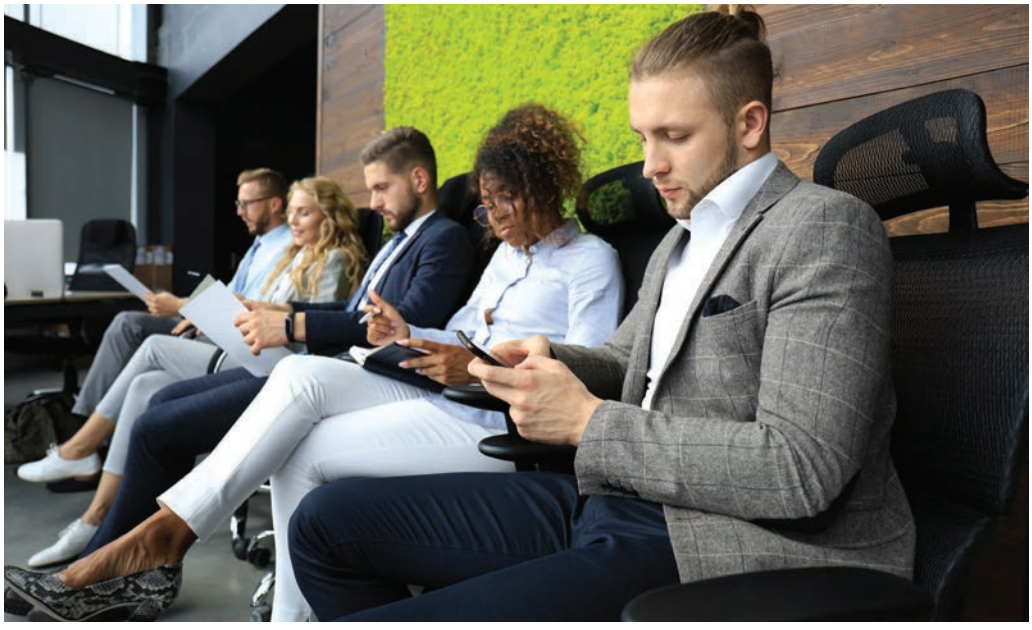
Step 7: Close the interview. Leave time to answer any questions the candidate may have and, if appropriate, to advocate your firm to the candidate.

Try to end the interview on a positive note. Tell the applicant whether there's any interest and, if so, what the next step will be. Make rejections diplomatically—"Although your background is impressive, there are other candidates whose experience is closer to our requirements." Remember, as one recruiter says, "An interview experience should leave a lasting, positive impression of the company, whether the candidate receives and accepts an offer or not."[97] If the applicant is still under consideration but you can't reach a decision now, say so.

Step 8: Review the interview. Once the candidate leaves, review your interview notes, score the interview answers (if you used a guide), and make a decision.

In rejecting a candidate, one perennial question is, should you provide an explanation or not? In one study, rejected candidates who received an explanation felt that

Go into the interview with an accurate picture of the traits of an ideal candidate, know what you're going to ask, and be prepared to keep an open mind about the candidate.



Tsyhun/Shutterstock

FIGURE 7-3 Common Interview Questions [i]

1. "Tell me a little about yourself."
2. "What are your biggest weaknesses?"
3. "What are your biggest strengths?"
4. "Where do you see yourself in five years?"
5. "Out of all the candidates, why should we hire you?"
6. "How did you learn about the opening?"
7. "Why do you want this job?"
8. "What do you consider to be your biggest professional achievement?"
9. "Tell me about the last time a coworker or customer got angry with you. What happened?"
10. "Describe your dream job."
11. "Why do you want to leave your current job?"
12. "What kind of work environment do you like best?"
13. "Tell me about the toughest decision you had to make in the last six months."
14. "What is your leadership style?"
15. "Tell me about a time you disagreed with a decision. What did you do?"
16. "Tell me how you think other people would describe you."
17. "What can we expect from you in your first three months?"
18. "What do you like to do outside of work?"
19. "What was your salary in your last job?"
20. "A snail is at the bottom of a 30-foot well. Each day he climbs up three feet, but at night he slips back two feet. How many days will it take him to climb out of the well?"
21. "What questions do you have for me?"
22. "What do you expect me to accomplish in the first 90 days?"
23. "What are the three traits your top performers have in common?"
24. "What really drives results in this job?"
25. "What are the company's highest-priority goals this year, and how would my role contribute?"

[i] Jeff Haden, "27 Most Common Job Interview Questions and Answers," https://www.linkedin.com/pulse/27-most-common-job-interview-questions-answers-jeff-haden#:~:text=Here%20are%20some%20of%20the%20most%20common%20interview,and%20Facebook%20and%20Google%20can%20tell%20you%20more, accessed February 6, 2022.

the rejection process was fairer. Unfortunately, doing so may not be practical. Most employers say little, to avoid pushback and legal problems.[98] Templates for rejections emails or letters are available from SHRM and others.[99] ■

Competency Profiles and Employee Interviews

We've seen that many companies use competency models or profiles for recruiting, selecting, training, appraising, and compensating employees. Employers can use such a profile for formulating job-related situational, behavioral, and knowledge interview questions. Table 7-1 summarizes this, for chemical engineer candidates, with sample interview questions.

TABLE 7-1 Asking Competency Profile-Oriented Interview Questions

Profile Competency	Example of Competency	Sample Interview Question
Skill	Able to use computer drafting software	Tell me about a time you used CAD Pro computerized design software.
Knowledge	How extreme heat affects hydrochloric acid (HCl)	Suppose you have an application where HCl is heated to 400 degrees Fahrenheit at 2 atmospheres of pressure; what happens to the HCl?
Trait	Willing to travel abroad at least 4 months per year visiting facilities	Suppose you had a family meeting to attend next week and we informed you that you had to leave for a job abroad immediately. How would you handle that?
Experience	Designed pollution filter for acid-cleaning facility	Tell me about a time when you designed a pollution filter for an acid-cleaning facility. How did it work? What particular problems did you encounter?

LEARNING OBJECTIVE 7-4

Give examples of how to use employee selection to improve employee engagement.

Employee Engagement Guide for Managers

Building Engagement: A Total Selection Program

Many employers create a *total selection program* aimed at selecting candidates whose totality of attributes best fits the employer's total requirements. The program Toyota Motor uses to select employees for auto assembly team jobs illustrates this.

Toyota looks for several things. It wants employees with good interpersonal skills, due to the job's emphasis on teamwork. Toyota's emphasis on *kaizen*—on having the workers improve job processes through worker commitment to top quality—helps explain its emphasis on reasoning and problem-solving skills and on hiring intelligent, educated, and engaged workers.[100] Quality is a Toyota core value, so Toyota wants a history of quality commitment in those it hires. (Toyota holds group interviews. By asking candidates about what they are proudest of, Toyota gets a better insight into the person's values regarding quality and doing things right). Toyota also wants employees with an eagerness to learn, and who are willing to try things Toyota's way or the team's way. Toyota's production system relies on consensus decision making, job rotation, and flexible career paths, which in turn require open-minded, flexible team players, not dogmatists.

The Toyota Way

Toyota's hiring process aims to identify such assembler candidates. The process takes about 20 hours and six phases over several days:[101]

Step 1: an in-depth online application (20–30 minutes)
Step 2: a 2- to 5-hour computer-based assessment
Step 3: a 6- to 8-hour work simulation assessment
Step 4: a face-to-face interview
Step 5: a background check, drug screen, and medical check
Step 6: job offer

For example, in step 1, applicants complete applications summarizing their experience and skills, and often view a video describing Toyota's work environment and selection system. This provides a realistic preview of the work and of the hiring process's extensiveness. Many applicants drop out here.

Step 2 assesses the applicant's technical knowledge and potential. Here applicants take tests that help identify problem-solving skills, learning potential, and occupational preferences. Skilled trade applicants (experienced mechanics, for instance) also take tool and die or general maintenance tests. Vendors offer practice Toyota tests.[102]

In step 3, applicants engage in simulated realistic production activities in Toyota's assessment center, under the observation of Toyota screening experts. The production (work sample) test assesses how well each candidate does on an actual assembler task. Also here, group discussion exercises help show how each applicant interacts with others in their group and solves problems.

In one simulation, candidates play the roles of the management and the workers of a firm making electrical circuits. During one scenario, the team must decide which circuit should be manufactured and how to effectively assign people, materials, and money to produce them. In another, participants role-play a team responsible for choosing new features for next year's car. Team members first individually rank 12 features based upon market appeal and then suggest one feature not included on the list. They must then come to a consensus on the best rank ordering. As one candidate who went through this process said, "There are three workstations in which you will be required to spend 2 hours at each one. You then have to get in a group and problem-solve a special project with them for another hour or so. I left my house at 5 A.M. and did not return until 6:30 P.M.; it was a very long day."[103]

The time and effort applicants must invest in their Toyota visits are no accident. Toyota seeks engaged, flexible, quality-oriented team players, and those who lack these traits tend not to make it through the screening process. The rigorousness of the process tends to screen out the less engaged.

In summary, Toyota uses a total hiring process to identify and select engaged employees. Four common themes are apparent from Toyota's process. First, *value-based hiring* means it clarifies its own values before it embarks on an employee selection program. Whether based on excellence, kaizen/continuous improvement, integrity, or some other, value-based hiring begins with clarifying what your firm's values are and what you're looking for in employees.

Second, high-engagement firms such as Toyota commit the time and effort for an *exhaustive screening process*. Eight to ten hours of interviewing even for entry-level employees is not unusual, and firms like this will often spend 20 hours or more with someone before deciding to hire. Many are rejected.

Third, the screening process doesn't just identify knowledge and technical skills. Instead, it seeks candidates whose *values and skills match* the needs of the firm. Teamwork, kaizen, problem solving, engagement, and flexibility are essential values at Toyota, so problem-solving skills, interpersonal skills, and engagement with the firm's commitment to quality are crucial human requirements.

Fourth, *self-selection* is important. In some firms this just means realistic previews. At others, practices such as long probationary periods in entry-level jobs help screen out those who don't fit. At Toyota, the long screening process itself demands a sacrifice in terms of time and effort.

Science in Talent Management: Google

As another example, Google takes a scientific, evidence-based approach to its selection practices.

Google starts (as explained in Chapter 4) with strong candidates. For example, its internal recruiting group proactively reaches out to identify candidates, rather than using job boards to attract unscreened résumés.

Work samples, testing, and interviewing are the main elements in Google's selection process. Virtually all of Google's technical hires take work sample tests, such as actually writing algorithms. Work samples are combined with testing of cognitive ability (similar to IQ tests), and of conscientiousness. Early in its evolution Google put candidates through a dozen or more interviews. However, Google's analysis showed that after the first four interviews the amount of useful information it got was small. It now generally makes hiring decisions after the fourth interview.

The interviews emphasize situational and behavioral questions. For specific questions, Google provides its interviewers with its QDroid system; this e-mails each interviewer specific questions to ask the candidate for the specific job. Google interviewers were once known for trick questions; however the emphasis now is on using validated questions (from the QDroid system). The questions aim to assess the candidate's cognitive ability, leadership (particularly willingness to lead projects), "Googleyness" (values such as fun-loving and conscientious), and role-related knowledge (such as in computer science).

Who actually does the interviewing? Here Google believes in the "wisdom of crowds": the interviewing "crowd" includes not just the prospective boss but also prospective subordinates and representatives of other, unrelated departments. Google then averages all the interviewers' interview ratings on a candidate to get a score. Finally, the hiring committee reviews the file, as does a Google senior manager, and then the CEO, before making an offer.[104]

Google is continually analyzing and improving its selection process. For example, it periodically runs experiments that identify common keywords so as to analyze résumés of successful Google employees in particular jobs. Google then looks for these keywords in applicants who it *rejected* over the past year. It then reevaluates these rejected applicants for these keywords, hiring many of these former "rejects" as a result. Similarly, interviewers get printouts showing how effective they've been as interviewers, in terms of candidates hired or not hired. Google's process is thus evidence-based, and scientific.

LEARNING OBJECTIVE 7-5

List the main points in developing and extending the actual job offer.

Developing and Extending the Job Offer

After all the interviews, background checks, and tests, the employer decides to whom to make an offer, using one or more approaches. The *judgmental* approach subjectively weighs all the evidence about the candidate. The *statistical* approach quantifies all the evidence and perhaps uses a formula to predict job success. The *hybrid* approach combines statistical results with judgment. Statistical and hybrid are more defensible; judgmental is better than nothing.

The employer will base the details of the actual offer on, for instance, the candidate's apparent attractiveness as a prospective employee, the level of the position, and pay rates for similar positions. Next the employer extends an actual job offer to the candidate verbally. Here, the employer's point person (who might be the person to whom the new employee will report, or the human resource director, for instance) discusses the offer's main parameters. These include, for instance, pay rates, benefits, and actual job duties. There may be some negotiations. Then, once agreement is reached, the employer will extend a written job offer to the candidate.

There are several issues to consider with the written offer. Perhaps most important, understand the difference between a job offer letter and a contract. In a job offer letter, the employer lists the offer's basic information. This typically starts with a welcome sentence. It then includes job-specific information (such as details on salary and pay), benefits information, paid leave information, and terms of employment (including, for instance, successful completion of physical exams). There should be a strong statement that the employment relationship is "at will." There is then a closing statement. This again welcomes the employee, mentions who the employer's point person is if any questions arise, and instructs the candidate to sign the letter of offer if it is acceptable. It is prudent to have an attorney review the offer before extending it.[105]

For many positions (such as executive) a contract is in order. Unlike a letter of offer (which should always be "at will"), an employment contract may have a duration (such as 3 years). Therefore, the contract will also describe grounds for termination or resignation, and severance provisions. The contract will almost always also include terms regarding confidentiality, nondisclosure requirements, and covenants not to compete (some *job offer letters* for positions such as engineer may include such provisions as well).

Depending upon the position, the employment contract (and, occasionally, the offer letter) may include a relocation provision. This lays out what the employer is willing to pay the new employee to relocate, for instance, in terms of moving expenses. State law generally governs enforcement of individual employment contracts. Letter of offer and employment contract samples are available online.[106]

Chapter Review

Chapter Section Summaries

7-1. A selection interview is a selection procedure designed to predict future job performance based on applicants' oral responses to oral inquiries; we discussed several **basic types of interviews.** There are structured versus unstructured interviews. We also distinguished between interviews based on the types of questions and on how you administer the interview.

7-2. One reason selection interviews are often less useful than they should be is that managers make predictable **errors that undermine an interview's usefulness.** They jump to conclusions or make snap judgments based on preliminary information, they don't clarify what the job really requires, they succumb to candidate-order error and pressure to hire, and they let a variety of nonverbal behaviors and personal characteristics undermine the validity of the interview.

7-3. The manager should know how to **design and conduct an effective interview.** The structured situational interview is a series of job-related questions with predetermined answers that interviewers ask of all applicants for the job. Steps in creating a structured situational interview

include analyzing the job, rating the job's main duties, creating interview questions, creating benchmark answers, and appointing the interview panel and conducting interviews.

7-4. **High-engagement firms** like Toyota use total hiring programs to select employees. Doing so requires clarifying the firm's values, committing the time and effort, matching the applicant's values with the firm's, having realistic previews, and encouraging self-selection.

7-5. Finally the employer turns to **developing and extending the job offer.** Distinguish between a job offer letter and a contract. The former lists the offer's basic information, including details on salary and pay, benefits information, paid leave information, and terms of employment. There should be a strong statement specifying that the employment relationship is "at will." In contrast to a letter of offer, the employment contract may well have a duration (such as 3 years).

Discussion Questions

7-1. There are several ways to conduct a selection interview. Explain and illustrate the basic ways in which you can classify selection interviews.

7-2. Briefly describe each of the following types of interviews: unstructured panel interviews, structured sequential interviews, job-related structured interviews.

7-3. For what sorts of jobs do you think unstructured interviews might be most appropriate? Why?

7-4. How would you explain the fact that structured interviews, regardless of content, are generally more valid than unstructured interviews for predicting job performance?

7-5. Briefly discuss what an interviewer can do to improve his or her interviewing performance.

7-6. What items should a letter of offer definitely contain?

7-7. What parallels do you see between the Toyota and Google total selection processes? What differences?

Individual and Group Activities

7-8. Prepare and give a short presentation titled "How to Be Effective as a Selection Interviewer."

7-9. Use the Internet to find employers who now do preliminary selection interviews via the Web. Do you think these interviews are useful? Why? How would you improve them?

7-10. In groups, discuss and compile examples of "the worst interview I ever had." What was it about these interviews that made them so bad? If time permits, discuss as a class.

7-11. In groups, prepare an interview (including a sequence of at least 20 questions) you'll use to interview candidates for the job of teaching a course in human resource management. Each group should present its interview questions in class.

7-12. Lockheed Martin Corp. once sued the Boeing Corp., accusing it of using Lockheed's trade secrets to help win a multibillion-dollar government contract. Among other things, Lockheed claimed that Boeing had obtained those trade secrets from a former Lockheed employee who switched to Boeing.[107] But of the methods companies use to commit corporate espionage, one writer says that hiring away the competitor's employees is just the most obvious method companies use. One writer says, "One of the more unusual scams—sometimes referred to as 'help wanted'—uses a person posing as a corporate headhunter who approaches an employee of the target company with a potentially lucrative job offer. During the interview, the employee is quizzed about his responsibilities, accomplishments, and current projects. The goal is to extract information without the employee realizing there is no job."[108]

Assume you own a small high-tech company. What would you do (in terms of employee training, or a letter from you, for instance) to try to minimize the chance that one of your employees will fall into that kind of a trap? Also, compile a list of 10 questions that you think such a corporate spy might ask one of your employees.

7-13. The HRCI *Exam Content Outline* website https://www.hrci.org/docs/default-source/web-files/phr-exam-content-outline.pdf?sfvrsn=13c44f61_28 lists the knowledge someone studying for the HRCI PHR certification exam needs to have in each area of human resource management (such as in Business Management, and in Talent Planning and Acquisition).[109] In groups of several students, do four things: (1) review the *Exam Content Outline*

on that website; (2) identify the material in this chapter that relates to the Exam Content Outline's required "Knowledge Of" lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.

Experiential Exercise

The Most Important Person You'll Ever Hire

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Purpose: The purpose of this exercise is to give you practice using some of the interview techniques you learned from this chapter.

Required Understanding: You should be familiar with the information presented in this chapter, and read this: For parents, children are precious. It's therefore interesting that parents who hire "nannies" to take care of their children usually do little more than ask several interview questions and conduct what is often, at best, a perfunctory reference check. Given the often questionable validity of interviews, and the (often) relative inexperience of the father or mother doing the interviewing, it's not surprising that many of these arrangements end in disappointment. You know from this chapter that it is difficult to conduct a valid interview unless you know exactly what you're looking for and, preferably, structure the interview. Most parents simply aren't trained to do this.

How to Set Up the Exercise/Instructions: Set up groups of five or six students. Two students will be the interviewees, while the other students in the group will serve as panel interviewers. The interviewees will develop an interviewer assessment form, and the panel interviewers will develop a structured situational interview for a "nanny."

7-14. Instructions for the interviewees: The interviewees should leave the room for about 20 minutes. While out of the room, the interviewees should develop an "interviewer assessment form" based on the information presented in this chapter regarding factors that can undermine the usefulness of an interview. During the panel interview, the interviewees should assess the interviewers using the interviewer assessment form. After the panel interviewers have conducted the interview, the interviewees should leave the room to discuss their notes. Did the interviewers exhibit any of the behaviors that can undermine the usefulness of an interview? If so, which ones? What suggestions would you (the interviewees) make to the interviewers on how to improve the usefulness of the interview?

7-15. Instructions for the interviewers: While the interviewees are out of the room, the panel interviewers will have 20 minutes to develop a short structured situational interview form for a "nanny." The panel interview team will interview two candidates for the position. During the panel interview, each interviewer should be taking notes on a copy of the structured situational interview form. After the panel interview, the panel interviewers should discuss their notes. What were your first impressions of each interviewee? Were your impressions similar? Which candidate would you all select for the position, and why?

Application Case

The Out-of-Control Interview

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Maria Fernandez is a bright, popular, and well-informed mechanical engineer who graduated with an engineering degree from State University in June 2022. During the spring preceding her graduation, she went out on many job interviews, most of which she thought were conducted courteously and were reasonably useful in giving both her and the prospective employer a good impression of where each of them stood on matters of importance to both of them. It was, therefore, with great anticipation that she looked forward to an interview with the one firm in which she most wanted to work: Apex Environmental. She had always had a strong interest in the environment and believed that the best use of her training and skills lay in working for a firm like Apex, where she thought she could have a successful career while making the world a better place.

The interview, however, was a disaster. Maria walked into a room where five men—the president of the company, two vice presidents, the marketing director, and another engineer—began throwing questions at her that she felt were aimed primarily at tripping her up rather than finding out what she could offer through her engineering skills. The questions ranged from being unnecessarily discourteous ("Why would you take a job as a waitress in college if you're such an intelligent person?") to being irrelevant and sexist ("Are you planning on starting a family anytime soon?"). Then, after the interview, she met with two of the gentlemen individually (including the president), and

the discussions focused on her technical expertise. She thought that these later discussions went fairly well. However, given the apparent aimlessness and even mean-spiritedness of the panel interview, she was astonished when several days later the firm made her a job offer.

The offer forced her to consider several matters. From her point of view, the job itself was perfect. She liked what she would be doing, the industry, and the firm's location. And in fact, the president had been quite courteous in subsequent discussions. She was left wondering whether the panel interview had been intentionally tense to see how she'd stand up under pressure, and, if so, why they would do such a thing.

Questions

7-16. How would you explain the nature of the panel interview Maria had to endure? Specifically, do you think it reflected a well-thought-out interviewing strategy on the part of the firm or carelessness on the part of the firm's management? If it were carelessness, what would you do to improve the interview process at Apex Environmental?

7-17. Would you take the job offer if you were Maria? If you're not sure, what additional information would help you make your decision?

7-18. The job of applications engineer for which Maria was applying requires (a) excellent technical skills with respect to mechanical engineering, (b) a commitment to working in the area of pollution control, (c) the ability to deal well and confidently with customers who have engineering problems, (d) a willingness to travel worldwide, and (e) a very intelligent and well-balanced personality. List 10 questions you would ask when interviewing applicants for the job.

Continuing Case

Carter Cleaning Company

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The Better Interview

Like virtually all the other HR-related activities at Carter Cleaning Centers, the company currently has no organized approach to interviewing job candidates. Store managers, who do almost all the hiring, have a few of their own favorite questions that they ask. But in the absence of any guidance from management, they all admit their interview performance leaves something to be desired. Similarly, Jack Carter himself is admittedly most comfortable dealing with what he calls the "nuts and bolts" machinery aspect of his business and has never felt particularly comfortable having to interview management or other job applicants. Jennifer is sure that this lack of formal interviewing practices, procedures, and training account for some of the employee turnover and theft problems. Therefore, she wants to do something to improve her company's performance in this important area.

Questions

7-19. In general, what can Jennifer do to improve her employee interviewing practices? Should she develop interview forms that list questions for management and nonmanagement jobs? If so, how should these look, and what questions should be included? Should she initiate a computer-based interview approach? If so, why and how?

7-20. Should she implement an interview training program for her managers, and if so, specifically what should be the content of such a training program? In other words, if she did decide to start training her management people to be better interviewers, what should she tell them, and how should she tell it to them?

Translating Strategy into HR Policies and Practices Case*,§

**The overall strategy map on the inside back cover of this text outlines the relationships involved.*

Improving Performance at the Hotel Paris

The New Interviewing Program

The Hotel Paris's competitive strategy is "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy, by eliciting the required employee behaviors and competencies.

As an experienced HR professional, Lisa knew that the company's new testing program would go only so far. She knew that, at best, employment tests accounted for perhaps 30% of employee performance. It was essential that she and her team design a package of interviews that her hotel managers could use to assess—on an interactive and personal basis—candidates for various positions. It was only in that way that the hotel could hire the sorts of employees whose competencies and behaviors would translate into the kinds of outcomes—such as improved guest services—that the hotel required to achieve its strategic goals.

Lisa received budgetary approval to design a new employee interview system. She and her team started by reviewing the job descriptions and job specifications for the positions of front-desk clerk, assistant manager, security guard, valet, door person, and housekeeper. Focusing on developing structured interviews for each position, the team set about devising interview questions. For example, for the front-desk clerk and assistant manager, they formulated several *behavioral questions*, including, "Tell me about a time when you had to deal with an irate person, and what you did," and "Tell me about a time when you had to deal with several conflicting demands at once, such as having to study for several final exams at the same time, while working. How did you handle the situation?" They also developed a number of *situational questions*, including "Suppose you have a very pushy incoming guest who insists on being checked in at once, while at the same time you're trying to process the check-out for

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another guest who must be at the airport in 10 minutes. How would you handle the situation?" For these and other positions, they also developed several *job knowledge* questions. For example, for security guard applicants, one question her team created was, "What are the local legal restrictions, if any, regarding using products like Mace if confronted by an unruly person on the hotel grounds?" The team combined the questions into structured interviews for each job, and turned to testing, fine-tuning, and finally using the new system.

Questions

7-21. For the jobs of security guard and valet, develop five additional situational, five behavioral, and five job knowledge questions, with descriptive good/average/poor answers.

7-22. Combine, (based on what you read in this Dessler, *Human Resource Management,* chapter) your questions into a complete interview that you would give to someone who must interview candidates for these jobs.

Writing Assignments

7-23. Briefly discuss and give examples of at least five common interviewing errors. What recommendations would you give for avoiding these interviewing errors?

7-24. What parallels do you see between the Toyota and Google total selection processes? What differences?

Key Terms

unstructured (or nondirective) interview, 199
structured (or directive) interview, 199
situational interview, 200
behavioral interview, 200
job-related interview, 201
stress interview, 201
unstructured sequential interview, 202
structured sequential interview, 202
panel interview, 202
mass interview, 202
candidate-order (or contrast) error, 206
structured situational interview, 208

Endnotes

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APPENDIX 1 FOR CHAPTER 7

Structured Interview Guide

STEP 1—Create a Structured Interview Guide

Instructions:
First, here in step 1, create a structured interview guide like this one (including a competency definition, a lead question, and benchmark examples and answers, for instance) ***for each of the job's required competencies***:

Competency: Interpersonal Skills

Definition:
Shows understanding, courtesy, tact, empathy, concern; develops and maintains relationships; may deal with people who are difficult, hostile, distressed; relates well to people from varied backgrounds and situations; is sensitive to individual differences.

Lead Questions:
Describe a situation in which you had to deal with people who were upset about a problem. What specific actions did you take? What was the outcome or result?

Benchmark Level	Level Definition	Level Examples
5	Establishes and maintains ongoing working relationships with management, other employees, internal or external stakeholders, or customers. Remains courteous when discussing information or eliciting highly sensitive or controversial information from people who are reluctant to give it. Effectively handles situations involving a high degree of tension or discomfort involving people who are demonstrating a high degree of hostility or distress.	Presents controversial findings tactfully to irate organization senior management officials regarding shortcomings of a newly installed computer system, software programs, and associated equipment.
4		Mediates disputes concerning system design/ architecture, the nature and capacity of data management systems, system resources allocations, or other equally controversial/sensitive matters.
3	Cooperates and works well with management, other employees, or customers, on short-term assignments. Remains courteous when discussing information or eliciting moderately sensitive or controversial information from people who are hesitant to give it. Effectively handles situations involving a moderate degree of tension or discomfort involving people who are demonstrating a moderate degree of hostility or distress.	Courteously and tactfully delivers effective instruction to frustrated customers. Provides technical advice to customers and the public on various types of IT such as communication or security systems, data management procedures or analysis.
2		Familiarizes new employees with administrative procedures and office systems.
1	Cooperates and works well with management, other employees, or customers during brief interactions. Remains courteous when discussing information or eliciting non-sensitive or non-controversial information from people who are willing to give it. Effectively handles situations involving little or no tension, discomfort, hostility, or distress.	Responds courteously to customers' general inquiries. Greets and assists visitors attending a meeting within own organization.

FIGURE 7A-1 Structured Interview Guide

Source: From Conducting Effective Structured Interviews Resource Guide for Hiring Managers and Supervisors, 2005, United States Department of State Bureau of Human Resources.

STEP 2—INDIVIDUAL EVALUATION FORM

Instructions:
Next, in step 2, create a form for evaluating each job candidate on each of the job's competencies:

Candidate to be assessed: _____

Date of Interview: _____

Competency: Problem Solving				
Definition: Identifies problems; determines accuracy and relevance of information; uses sound judgment to generate and evaluate alternatives, and to make the recommendations.				
Question: Describe a situation in which you identified a problem and evaluated the alternatives to make a recommendation or decision. What was the problem and who was affected?				
Probes: How did you generate and evaluate your alternatives? What was the outcome?				
Describe specific behaviors observed: (Use back of sheet, if necessary)				
1–Low	2	3–Average	4	5–Outstanding
Uses logic to identify alternatives to solve routine problems. Reacts to and solves problems by gathering and applying information from standard materials or sources that provide a limited number of alternatives.		Uses logic to identify alternatives to solve moderately difficult problems. Identifies and solves problems by gathering and applying information from a variety of materials or sources that provide several alternatives.		Uses logic to identify alternatives to solve complex or sensitive problems. Anticipates problems and identifies and evaluates potential sources of information and generates alternatives to solve problems where standards do not exist.

Final Evaluation:	Printed Name:	Signature:

FIGURE 7A-1 ***Continued***

STEP 3—PANEL CONSENSUS EVALUATION FORM

Instructions:
Finally, in step 3, create a panel consensus evaluation form like this one, which the members of the panel who interviewed the candidate will use to evaluate his or her interview performance.

Candidate: _____

Date: _____

Panel Consensus Evaluation Form

Instructions:
Translate each individual evaluation for each competency onto this form. If all of the individual competency evaluations are within one rating scale point, enter the average of the evaluations in the column labeled Group Evaluation. If more than one point separates any two raters, a consensus discussion must occur with each party justifying his/her evaluation. The lead interviewer or his/her designee should take notes on the consensus discussion in the space provided. Any changes in evaluation should be initialed and a final evaluation entered for each competency.

Competency	Final Individual Evaluations			Group Evaluation
	(1)	(2)	(3)	
Interpersonal Skills				
Self-Management				
Reasoning				
Decision Making				
Problem Solving				
Oral Communication				
Total Score				

Consensus Discussion Notes:

Signature Panel Member 1: _____

Signature Panel Member 2: _____

Signature Panel Member 3: _____

FIGURE 7A-1 ***Continued***

APPENDIX 2 FOR CHAPTER 7

Interview Guide for Interviewees

Before managers move into positions where they have to interview others, they usually must navigate some interviews themselves. It's therefore useful to apply some of what we discussed in this chapter to navigating one's own interviews.

Beyond trying to determine how you would perform the technical parts of the job, interviewers will try to discover what you are like as a person. In other words, how you get along with other people and your desire to work. They will look here at how you behave. For example, they will note whether you respond concisely, cooperate fully in answering questions, state personal opinions when relevant, and keep to the subject at hand; these are very important elements in influencing the interviewer's decision.

Getting an Extra Edge

Here are six things to do to get an extra edge in the interview.[110]

1. ***Preparation is essential.*** Before the interview, learn all you can about the employer, the job, and the people doing the recruiting. On the web, using social media, or looking through business periodicals, find out what is happening in the employer's field. Try to unearth the employer's problems. Be ready to explain why you think you would be able to solve such problems, citing some of your *specific accomplishments* to make your case.
2. ***Uncover the interviewer's real needs.*** Spend as little time as possible briefly answering your interviewer's first questions and as much time as possible getting him or her to describe his or her needs. Determine what the person is expecting to accomplish, and the type of person he or she feels is needed. Use open-ended questions such as, "Could you tell me more about that?"
3. ***Relate yourself to the interviewer's needs.*** Once you know the type of person your interviewer is looking for and the sorts of problems he or she wants solved, you are in a good position to describe your own accomplishments *in terms of the interviewer's needs.* Start by saying something like, "One of the problem areas you've said is important to you is similar to a problem I once faced." Then state the problem, describe your solution, and reveal the results.
4. ***Think before answering.*** Answering a question should be a three-step process: Pause—Think—Speak. *Pause* to make sure you understand what the interviewer is driving at, *think* about how to structure your answer, and then *speak.* In your answer, try to emphasize how hiring you will help the interviewer solve his or her problem.
5. ***Remember that appearance and enthusiasm are important.*** Appropriate clothing, good grooming, a firm handshake, and energy are important. Maintain eye contact. In addition, speak with enthusiasm, nod agreement, and remember to take a moment to frame your answer (pause, think, speak) so that you sound articulate and fluent. Remember that many interviewers seek "chemistry" in terms of similarity of experiences when they're interviewing.
6. ***Make a good first impression.*** Remember that in most cases interviewers make up their minds about the applicant early in the interview. A good first impression may turn to bad during the interview, but it's unlikely. Bad first impressions are almost impossible to overcome. Experts suggest paying attention to the following key interviewing considerations:

    - Appropriate clothing
    - Good grooming
    - A firm handshake

- The appearance of controlled energy
- Pertinent humor and readiness to smile
- A genuine interest in the employer's operation and alert attention when the interviewer speaks
- Pride in past performance
- An understanding of the employer's needs and a desire to serve them

Tackling the "Standard" Questions

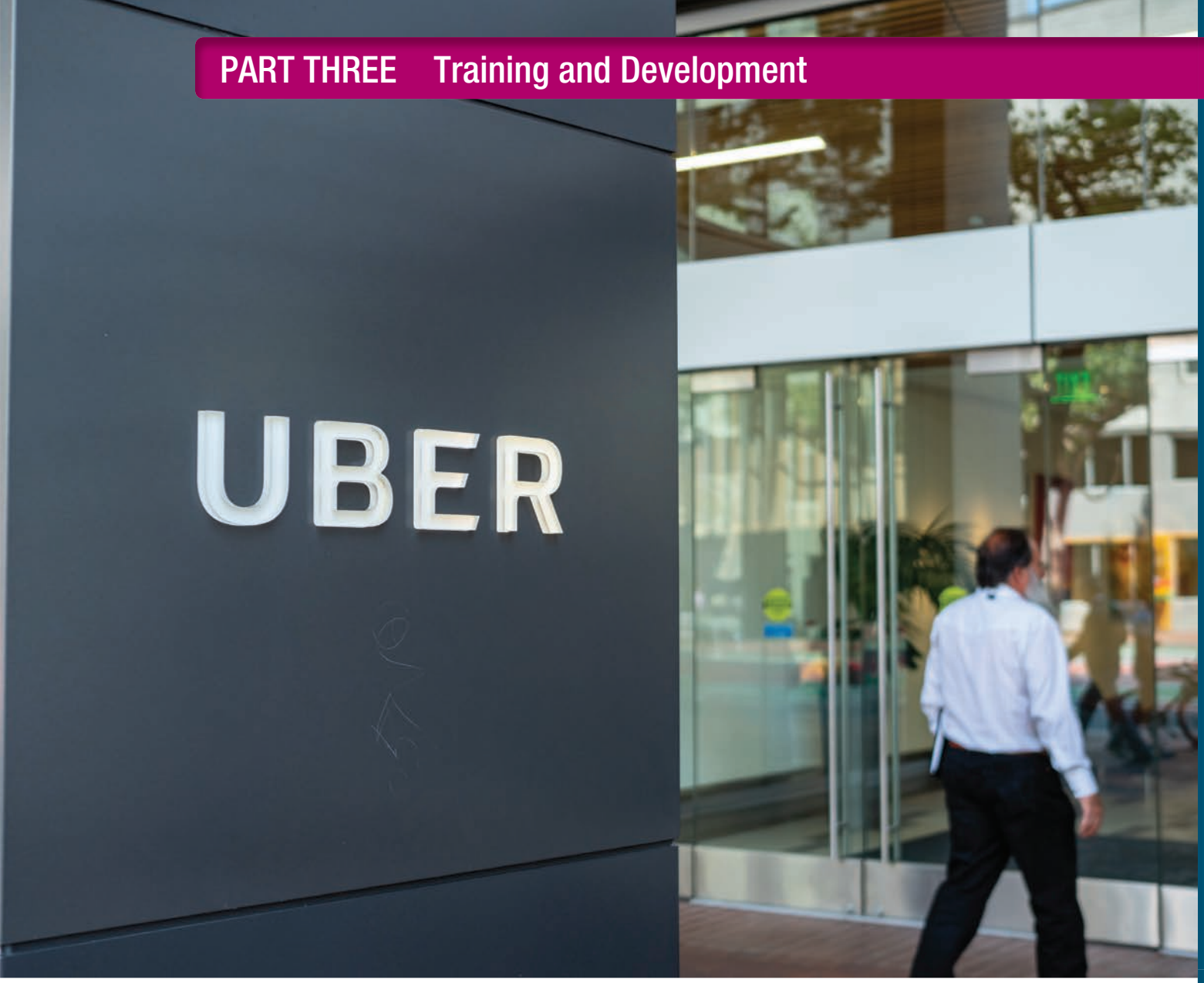
Be vigilant in answering familiar, standard questions such as "tell me about yourself."[111] For example, know that asking "tell me about yourself" helps recruiters size up your poise and communication skills. A good answer to "What are your greatest strengths?" should focus on the strengths related to the job you're interviewing for. Good answers to "What are your weaknesses?" include what you're doing to improve yourself. Interviewees who can't answer "What can you tell me about our company and industry?" may lack conscientiousness. Answering "What you like most and least about your most recent job?" should touch on liking the same values, activities, and culture that the job at hand involves. And someone who says "no" when asked "Do you have any questions?" may have thought too little about the job.

Should You Be Forthright?

Imagine a job candidate who by experience and education is highly qualified for a job, but who lacks some important trait(s): for example, he or she doesn't come across as a strong business "rainmaker" during an interview at a big accounting firm. How forthright should you be if asked why you didn't seem to be a strong rainmaker type?

Based on a recent study, otherwise top-notch candidates should be forthright.[112] This study found that a strong drive to "self-verify"—to "present oneself accurately so that others understand you as you understand yourself"—may help differentiate you from the other top candidates. The researchers measured self-verification with items such as "I like to be myself rather than trying to act like someone I'm not."

So, if you like being authentic and presenting yourself accurately to others, do so, as long as for the job at hand you're an otherwise top-notch candidate. (Doing this backfired for inferior candidates.) In this case for example, you might say, "I do tend to be understated, but when I sit with potential accounting clients and they see what I can do for them with my strong technical expertise, I almost always get the assignment".



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8 Training and Developing Employees

WHERE ARE WE NOW . . .

Chapters 6 and 7 focused on the methods managers use to interview and select employees. Once employees are on board, the employer must train them. The purpose of this chapter is to increase your effectiveness in training employees. The main topics we'll cover include **Orienting and Onboarding New Employees; Employee Engagement Guide for Managers; Overview of the Training Process; Implementing the Training Program; Implementing Management Development Programs; Managing Organizational Change Programs;** and **Evaluating the Training Effort**. Then, in Chapter 9, we'll turn to appraising employees.

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

8-1 **Summarize** the purpose and process of employee orientation.

8-2 **Give** an example of how to design onboarding to improve employee engagement.

8-3 **List and briefly explain** each of the steps in the training process.

8-4 **Explain** how to use five training techniques.

8-5 **List and briefly discuss** four management development methods.

8-6 **List and briefly discuss** the importance of the steps in leading organizational change.

8-7 **Explain** why a controlled study may be superior for evaluating the training program's effects.

With more than four million drivers worldwide and adding 30,000 per day, Uber has a huge training challenge.[1] Before climbing behind the wheel, drivers must know Uber's rules, how it operates, and of course how to use its app. Separate training covers things like harassment. Many places Uber operates require that drivers pass tests after training.[2] How do you train so many people, when your whole strategy is based on interacting with your workers almost entirely online? We'll see what they do.

LEARNING OBJECTIVE 8-1

Summarize the purpose and process of employee orientation.

Orienting and Onboarding New Employees

Carefully selecting employees doesn't guarantee they'll perform effectively. Even high-potential employees can't do their jobs if they don't know what to do or how to do it. Making sure your employees do know what to do and how to do it is the purpose of orientation and training. The human resources department usually designs the orientation and training programs, but the supervisor does most of the day-to-day orienting and training. Every manager therefore should know how to orient and train employees. We will start with orientation.

The Purposes of Employee Orientation/Onboarding

employee orientation
A procedure for providing new employees with basic background information about the firm.

Employee orientation (or *onboarding*) provides new employees with the basic background information (such as computer passwords and company rules) they need to do their jobs; ideally it should also help them start becoming emotionally attached to and engaged in the firm.[3] The manager wants to accomplish four things when orienting new employees:

1. Make the new employee feel welcome and at home and part of the team.
2. Make sure the new employee has the basic information to function effectively, such as e-mail access, personnel policies and benefits, and work behavior expectations.
3. Help the new employee understand the organization in a broad sense (its past, present, culture, and strategies and vision of the future).
4. Start socializing the person into the firm's culture and ways of doing things.[4] For example, the Mayo Clinic's "heritage and culture" program emphasizes Mayo Clinic values such as compassion, teamwork, integrity, patient needs, and mutual respect.[5]

The Orientation Process

Onboarding ideally begins before the person's first day, with a welcome note, orientation schedule, and list of documents (such as tax documents) needed the first day. On the first day, make sure colleagues know the new employee is starting, and arrange for one or more to take the person to lunch. On subsequent days, the new employee should meet colleagues in other departments. After about 2 weeks, speak with the employee to identify any concerns.[6]

The length of the onboarding program depends on what you cover. Some take several hours. The human resource specialist (or, in smaller firms, the office manager) performs the first part of the orientation by explaining basic matters like working hours and benefits. Then the supervisor continues by explaining the department's organization, introducing the person to his or her new colleagues, familiarizing him or her with the workplace, and reducing first-day jitters. At a minimum, the orientation should provide information on matters such as employee benefits, personnel policies, safety measures and regulations, and a facilities tour; making the new employee feel special and proud about working for the company is advisable;[7] new employees should receive (and sign for) print or Internet-based employee handbooks covering such company policies and matters. You'll find a variety of orientation checklists online.[8]

Others have much longer orientation/onboarding processes. L'Oréal's onboarding program extends about 2 years. It includes roundtable discussions, meetings with key insiders, on-the-job learning, individual mentoring, and experiences such as site visits.[9]

THE SUPERVISOR Supervisors should be vigilant. Follow up on and encourage new employees to engage in activities (such as taking breaks with colleagues) that will enable them to "learn the ropes." Especially for new employees with disabilities, integration and socialization are highly influenced by coworkers' and supervisors' behavior.[10]

Those *being* oriented should show they're involved. Two things seem to show managers that the people they're orienting are engaged. First, show you're trying to master and perform the tasks at hand (such as learning about the new job and company). Second, show you're trying to assimilate socially, for instance by interacting with new colleagues.[11]

Employers should onboard new executives too. In one survey "poor grasp of how the organization works" was a problem for 69% of new senior executives. This onboarding should cover the firm's operational plans and key business areas, key team members' career histories, key external stakeholders, and briefings on the firm's culture and how it "gets things done."[12]

THE EMPLOYEE HANDBOOK Employers should assume that their employee handbook's contents are legally binding commitments. Even apparently sensible handbook policies (such as "the company will not retaliate against employees who raise concerns about important issues in the workplace") can backfire without proper disclaimers. The handbook should include a disclaimer stating "nothing in this handbook should be taken as creating a binding contract between employer and employees, and all employment is on an at will basis."[13] Say that statements of company policies, benefits, and regulations do not constitute the terms and conditions of an employment contract, either expressed or implied. Do not insert statements such as "No employee will be fired without just cause" or statements that imply or state that employees have tenure. The firm's handbook policies may then evolve, as the prevailing political climate—for instance in terms of EEOC and union–management relations guidelines—changes.[14]

ORIENTATION TECHNOLOGY Employers use technology to support orientation. For example, ION Geophysical uses an online onboarding portal solution called RedCarpet. It includes a streaming video welcome message, and photos and profiles of new colleagues.[15] With Workday's iPhone app, users can search their company's directory for names, images, and contact information; call or e-mail coworkers directly; and view physical addresses on Google Maps.[16] Some employers place scannable QR codes along the orientation tour's stops, to provide information about each department and its role.[17] Employers use team activities and gamification (awarding points for completing parts of the program, for instance) to energize their onboarding programs.[18]

LEARNING OBJECTIVE 8-2
Give an example of how to design onboarding to improve employee engagement.

Employee Engagement Guide for Managers: Onboarding at Toyota

In many firms today, orientation goes well beyond providing basic information about things like work hours.[19] Onboarding at Toyota Motor Manufacturing USA illustrates this. While it does cover routine topics such as company benefits, its main aim is to engage Toyota's new employees in the firm's ideology of quality, teamwork, personal development, open communication, and mutual respect.[20] The initial program takes about 4 days:[21]

Day 1: The first day begins early and includes an overview of the program, a welcome to the company, and a discussion of the firm's organizational structure and human resource department by the firm's human resources vice president. The VP devotes about an hour and a half to discussing Toyota history and culture, and about 2 hours to employee benefits. Managers then spend several hours discussing Toyota's commitment to quality and teamwork.

Day 2: A typical second day focuses first on the importance of mutual respect, teamwork, and open communication at Toyota. The rest of the day covers topics such as safety, environmental affairs, and the Toyota production system.

Day 3: Given the importance of working in teams at Toyota, this day begins with 2½ to 3 hours devoted to communication training, such as "making requests and giving feedback." The rest of the day covers matters such as Toyota's problem-solving methods, quality assurance, hazard communications, and safety.

Day 4: Topics today include teamwork training and the Toyota suggestion system. This session also covers what work teams are responsible for and how to work together as a team. The afternoon session covers fire prevention and fire extinguisher training. By the end of day 4, new employees should be well on their way to being engaged in Toyota's ideology, in particular its mission of quality and its values of teamwork, continuous improvement, and problem solving.[22]

The bottom line is that there's more to orienting employees than introducing them to new coworkers. Even without a program like Toyota's, use the onboarding opportunity to start instilling in the new employee the company values and traditions in which you expect the person to become engaged.

LEARNING OBJECTIVE 8-3

List and briefly explain each of the steps in the training process.

Overview of the Training Process

Directly after orientation, training should begin. **Training** means giving new or current employees the skills that they need to perform their jobs, such as showing new salespeople how to sell your product. Training might just involve having the current jobholder explain the job to the new hire, or multiweek classroom or Internet classes. In one recent year, employers spent about $1,300 per employee on training.[23]

training
The process of teaching new or current employees the basic skills they need to perform their jobs.

Training is important.[24] If even high-potential employees don't know what to do and how to do it, they will improvise or do nothing useful at all. Furthermore, high achievers often begin looking for new positions due to dissatisfaction with inadequate training.[25] Employers also know that training fosters engagement. For example, Coca-Cola UK uses employee development plans, training, and leadership development to attract and retain the best employees and inspire their engagement.[26] Training and development can also be a magnet for job candidates who see it as an opportunity to advance their careers.[27]

Know Your Employment Law: Training and the Law

Training has various legal implications. With respect to *discrimination*, Title VII of the Civil Rights Act of 1964 and related legislation requires that employers avoid discriminatory actions in *all* aspects of their human resource management process, and that applies to selecting which employees to train. Employers face much the same consequences for discriminating against protected individuals when selecting candidates for training as they would in selecting candidates for jobs or for promotion.

Various laws and initiatives also require that individuals with handicaps have full access to online training courses and content.[28] For example, the Web Content Accessibility Guidelines 2.0[29] requires that educational and training content be *perceivable*, *operable*, *understandable*, and *robust* for people with handicaps. *Perceivable* means, for instance, that the program provides captions for multimedia and enables them to see and hear content. *Operable* means, for instance, that users have enough time to use the content. *Understandable* means the text is readable and understandable. *Robust* means the program is compatible with browsers and user tools.

negligent training
A situation where an employer fails to train adequately, and the employee subsequently harms a third party.

Inadequate training can also expose employers to liability for **negligent training**. As one expert puts it, "It's clear from the case law that where an employer fails to train adequately and an employee subsequently does harm to third parties, the court will find the employer liable." Among other things, the employer should confirm the applicant/employee's claims of skill and experience, provide adequate training (particularly where employees work with dangerous equipment), and evaluate the training to ensure that it is actually reducing risks.[30]

Aligning Strategy and Training

The employer's strategic plans should guide its training goals.[31] In essence, the manager should identify the employee behaviors the firm will need to execute its strategy; then, from this, deduce the competencies, skills and knowledge employees will need. Then set training goals and programs to impart those competencies.

For example, with the healthcare landscape changing, Walgreens had to reformulate its strategy. It broadened its offerings. Today it is the second-largest dispenser of flu shots in the United States. Its in-store health clinics provide medical care. It purchased drugstore.com.

Such strategic changes affected the skills that its employees required, and therefore its training policies. For example, Walgreens established Walgreens University. It offers more than 400 programs that help Walgreens employees build their skills. For example, some programs develop assistant store manager skills, and its new in-store health clinic nurses can take courses to expand their medical expertise. [32]

COMPETENCY MODELS IN TRAINING AND DEVELOPMENT *Competency models* can help employers translate strategic goals into training policies. Strategic human resource management involves developing HR policies that produce the employee competences and behaviors the employer requires to achieve its strategic goals. The **competency model** consolidates in a diagram an overview of the competencies someone would need to do a job well.[33] For example, the Association for Talent Development (ATD) recently created a new three-part "capability model" for talent development professionals. Required *personal capabilities* [competencies] include communication, decision-making, collaboration, and cultural awareness.[34] *Professional capabilities* include instructional design, technology application, and coaching. The *organizational capability* component includes consulting and business partnering, performance improvement, and change management.

competency model
A graphic model that consolidates in a diagram, an overview of the competencies (the knowledge, skills, and behaviors) someone would need to do a job well.

Specific employers like Walgreens then fine-tune such broad competencies to support the specific skills and behaviors—such as Walgreens health clinic nurses expanding their medical expertise—Walgreens requires to achieve its strategic goals. Similarly, Walgreens may then also create customized models for the specific skills and competencies Walgreens employees need to support its strategy.

The ADDIE Five-Step Training Process

The employer should use a rational training process. The gold standard here is still the basic analyze-design-develop-implement-evaluate (ADDIE) training process model that training experts have used for years.[35] As an example, one training vendor describes its training process as follows:[36]

- *Analyze* the training need.
- *Design* the overall training program.
- *Develop* the course (actually assembling/creating the training materials).
- *Implement* training, by actually training the targeted employee group using methods such as on-the-job or online training.
- *Evaluate* the course's effectiveness.

We'll look at each step next.

Analyzing the Training Needs

The training needs analysis may address the employer's *strategic/longer-term* training needs and/or its *current* training needs.

STRATEGIC TRAINING NEEDS ANALYSIS Strategic goals (perhaps to enter new lines of business or to expand abroad) often mean the firm will have to fill new jobs. *Strategic training needs analysis* identifies the training employees will need to fill these future jobs. For example, when Wisconsin-based Signicast Corp. decided to build a new high-tech plant, its top managers knew the plant's employees would need new skills to run the computerized machines. They worked closely with their HR team to formulate hiring and training programs to ensure the firm would have the people skills required to populate the new plant.

CURRENT EMPLOYEES' TRAINING NEEDS ANALYSIS Most training efforts aim to improve current performance—specifically training new employees, and those whose performance is deficient.

How you analyze current training needs depends on whether you're training new or current employees. The main task for *new* employees is to determine what the job entails and to break it down into subtasks, each of which you then teach to the new employee.

Analyzing *current* employees' training needs is more complex because you must also ascertain whether training is the solution. For example, performance may be down due to poor motivation. Managers use *task analysis* to identify new employees' training needs, and *performance analysis* to identify current employees' training needs.

task analysis
A detailed study of a job to identify the specific skills required.

***NEW EMPLOYEES:* TASK ANALYSIS FOR ANALYZING TRAINING NEEDS** Particularly with lower-level workers, it's customary to hire inexperienced personnel and train them. The aim here is to give these new employees the skills and knowledge they need to do the job. **Task analysis** is a detailed study of the job to determine what specific skills (like reading spreadsheets) the job requires. Here job descriptions and job specifications are essential. They list the job's specific duties and skills, which are the basic reference points in determining the training required. Managers also uncover training needs by reviewing performance standards, performing the job, and questioning current jobholders and supervisors.[37]

Some managers supplement the job description and specification with a *task analysis record form*. This form (see Table 8-1) consolidates information regarding required

TABLE 8-1 Sample Task Analysis Record Form

	Task List	When and How Often Performed	Quantity and Quality of Performance	Conditions Under Which Performed	Skills or Knowledge Required	Where Best Learned
1.	Operate paper cutter	4 times per day		Noisy pressroom: distractions		
1.1	Start motor	4 times per day				On the job
1.2	Set cutting distance		± tolerance of 0.007 in.		Read gauge	On the job
1.3	Place paper on cutting table		Must be completely even to prevent uneven cut		Lift paper correctly	On the job
1.4	Push paper up to cutter				Must be even	On the job
1.5	Grasp safety release with left hand		100% of time, for safety		Essential for safety	On the job but practice first with no distractions
1.6	Grasp cutter release with right hand				Must keep both hands on releases	On the job but practice first with no distractions
1.7	Simultaneously pull safety release with left hand and cutter release with right hand				Must keep both hands on releases	On the job but practice first with no distractions
1.8	Wait for cutter to retract		100% of time, for safety		Must keep both hands on releases	On the job but practice first with no distractions
1.9	Retract paper				Wait until cutter retracts	On the job but practice first with no distractions
1.10	Shut off		100% of time, for safety			On the job but practice first with no distractions
2.	Operate printing press					
2.1	Start motor					

Note: Task analysis record form showing some of the tasks and subtasks performed by a printing press operator.

tasks and skills. As it illustrates, the form contains six columns of information, such as "Skills or knowledge required."

***CURRENT EMPLOYEES:* PERFORMANCE ANALYSIS OF TRAINING NEEDS** For underperforming current employees, you can't assume that training is the solution. In other words, is it lack of training, or something else? **Performance analysis** is the process of verifying that there is a performance deficiency and determining whether the employer should correct such deficiencies through training or some other means (like transferring the employee).

performance analysis
Verifying that there is a performance deficiency and determining whether that deficiency should be corrected through training or through some other means (such as transferring the employee).

Performance analysis begins with comparing the person's actual performance to what it should be. Doing so helps to confirm that there is a performance deficiency, and (hopefully) helps the manager to identify its cause. Examples of performance deficiencies might be:

> *I expect each salesperson to make 10 new contracts per week, but John averages only 6.*
>
> *Other plants our size average no more than two serious accidents per month; we're averaging five.*

Ways to identify how a current employee is doing include

- Performance appraisals
- Job-related performance data (including productivity, absenteeism and tardiness, grievances, waste, late deliveries, product quality, repairs, and customer complaints)
- Observations by supervisors or other specialists
- Interviews with the employee or his or her supervisor
- Tests of things like job knowledge, skills, and attendance
- Attitude surveys
- Individual employee daily diaries
- Assessment center results
- Special performance gap analytical software, such as from Saba Software, Inc.

CAN'T DO/WON'T DO Uncovering *why* performance is down is the heart of performance analysis. The aim here is to distinguish between can't-do and won't-do problems. First, determine whether it is a *can't-do* problem and, if so, its specific causes. For example: The employees don't know what to do or what your standards are; there are obstacles such as lack of tools or supplies; there are no job aids (such as color-coded wires that show assemblers which wire goes where); you've hired people who haven't the required skills; or training is inadequate.

Or, it might be a *won't-do* problem. Here employees could do a good job if they wanted to. One expert says, "Perhaps the biggest trap that trainers fall into is [developing] training for problems that training just won't fix."[38] For instance, the better solution might be to change the incentives.

Designing the Training Program

Armed with the needs analysis, the manager next designs the training program. *Design* means planning the overall training program including training objectives, delivery methods, and program evaluation. Substeps include setting performance objectives, creating a detailed training outline (all training program steps from start to finish), choosing a program delivery method (such as lectures or web), and verifying the overall program design with management.

The design should include a summary of how you will set a training environment that motivates the trainees to learn and to transfer what they learn to the job. This is also where the manager reviews possible training content (including eBooks, workbooks, exercises, and activities) and estimates the training program budget.[39] We'll look more closely next at several specific training design issues.

SETTING LEARNING OBJECTIVES[40] At the outset, the trainer should clearly define the program's desired learning outcomes.[41] "Clients" will usually phrase their training requests in broad terms, such as "we need sales training." It's the trainer's job to

Most employers can build training programs based on existing online and offline content offered by training content providers.

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unearth the reasons behind the request, so as to formulate tangible program outcomes (such as "improved product knowledge").

Training, development, learning, or (more generally) *instructional objectives* should specify in measurable terms what the trainee should be able to do after successfully completing the training program.[42] For example:

> *The technical service representative will be able to adjust the color guidelines on this HP Officejet All-in-One printer copier within 10 minutes according to the device's specifications.*

The learning objectives should first address any performance deficiencies that you identified. Thus, if the sales team's sales are 40% too low, the objectives should focus on ensuring that the team members get the product knowledge they need to boost sales. But at the same time, the learning objectives must be practical, given the constraints.

CONSTRAINTS One constraint is financial. The employer will generally want to see and approve a *training budget* for the program. Typical costs include the development costs (of having, say, a human resource specialist working on the program for a week or two), the direct and indirect (overhead) costs of the trainers' time, participant compensation (for the time they're actually being trained), and the cost of evaluating the program. There are algorithms for estimating training program costs, for instance, in terms of labor hours and direct costs.[43] The question, of course, isn't just "Can we afford this program?" but "Does it pay to spend this much, given the benefits we'll receive—will it improve performance, and if so by how much?" Therefore, prepare to defend the program on a benefits-versus-costs basis.

There are also other constraints to consider. For example, time constraints may require reducing three or four desirable learning objectives to one or two.

CREATING A MOTIVATIONAL LEARNING ENVIRONMENT Municipalities running programs for traffic violators know there's often no better way to get someone's attention than to present a terrifying video accident. They know the best training starts not with a lecture but by making the material meaningful.

The same is true at work. Learning requires both ability and motivation, and the training program's design should accommodate both. In terms of *ability*, the learner–trainee needs (among other things) the required reading, writing, and mathematics abilities. Trainees are rarely homogeneous, for instance, in terms of intellectual capacity.

In setting the learning environment, the manager therefore should address several trainee-ability issues. For example, how will our program accommodate differences in trainee abilities? Do we need to provide remedial training?

Second, the learner must also be motivated. No manager should waste time showing a disinterested employee how to do something (even if the employee has the requisite ability).

Many books exist on how to motivate employees, but several specific observations are pertinent here.[44] The training program's effects will be diminished if trainees return to their jobs to snide comments such as, "I hope you liked your little vacation" from colleagues. Therefore, the low-hanging fruit in motivating trainees is to make sure the trainee's peers and supervisor support the training effort. Ideally, particularly for larger programs, top management should visibly support the program. Beyond that, various motivation theories provide useful guidance. From behavior modification, we know that the training should provide opportunities for positive reinforcement. "Expectancy theory" shows us that the trainees need to know they have the ability to succeed in the program, and that the value to them of completing the program is high. Self-efficacy is crucial—trainees must believe they have the capacity to succeed. We can summarize such motivational points as follows.

MAKE THE LEARNING MEANINGFUL Learners are more motivated to learn something that has meaning for them. Therefore:

1. Provide a bird's-eye view of the material that you are going to present. For example, show why it's important, and provide an overview.[45]
2. Use familiar examples.
3. Organize the information so you can present it logically.
4. Use familiar terms and concepts.
5. Use visual aids.
6. Create a perceived training need in trainees' minds.[46] In one study, pilots who experienced pretraining accident-related events subsequently learned more from an accident-reduction training program than did those experiencing fewer such events.[47] Similarly, "before the training, managers need to sit down and talk with the trainee about why they are enrolled in the class, what they are expected to learn, and how they can use it on the job." Creating "a desire to learn is crucial."[48]
7. Goal setting is important. In one study, some trainees set goals at the start of the program for the skills they were being taught. After training, they were rated more highly on these skills than were those who hadn't set goals.[49]

MAKE SKILLS TRANSFER OBVIOUS AND EASY Make it easy to transfer new skills and behaviors from the training site to the job site:

1. Maximize the similarity between the training situation and the work situation.
2. Provide adequate practice.
3. Label or identify each feature of the machine and/or step in the process.
4. Direct the trainees' attention to important aspects of the job. For example, if you're training a customer service rep to handle calls, explain the different types of calls to be encountered.[50]
5. Provide "heads-up" information. For example, supervisors often face stressful conditions. You can reduce the negative impact by letting supervisory trainees know they might occur.[51]
6. Trainees learn best at their own pace. If possible, let them pace themselves.
7. Intermingle opportunities for trainees to use their new skills or knowledge throughout the training.[52]

REINFORCE THE LEARNING Make sure the learner gets plenty of feedback. In particular:

1. Trainees learn best when the trainers immediately reinforce correct responses, perhaps with a quick "well done."
2. Learning diminishes late in the day. Partial-day training is generally superior to full-day training.
3. Provide follow-up assignments at the close of training, so trainees are reinforced by applying back on the job what they've learned.[53]
4. Incentivize. For example, Hudson Trail Outfitters offers trainees incentives of outdoor gear for completing training program segments.[54]

ENSURE TRANSFER OF LEARNING TO THE JOB Less than 35% of trainees seem to be transferring what they learned to their jobs a year after training. Improving on that requires steps at each training stage. *Prior to training*, get trainee and supervisor input in designing the program, institute a training attendance policy, and encourage employees to participate.

During training, provide trainees with training experiences and conditions (surroundings, equipment) that resemble the actual work environment.

After training, reinforce what trainees learned, for instance, reward employees for using new skills.[55]

HOW TO HAVE AN UNSUCCESSFUL TRAINING SESSION A longtime training expert lists reasons why training sessions fail.[56] These include using someone as a facilitator who while a subject matter expert is otherwise ill-suited for training; overuse of PowerPoints; not using imaginative props such as video clips; a boring session lacking, for instance, short challenges and energizers; no one broke the ice (everyone walked in and the training just began); not addressing the "elephant" in the room, (in other words the problem that the trainees feel they're really there to address); not starting and ending the session on time; offering training although training wasn't the problem; and not providing food and for breaks. (Other steps trainers can take to spark up their sessions include provide opportunities for group discussion and collaboration; and include opportunities to use social media, for instance by letting participants interact through chats or by posting articles or videos.)[57]

PROGRAM DELIVERY When designing the program, a key question is how to deliver it. As we will see, options here range from books to classes to virtual reality.

the cloud
Refers to placing software programs and services on vendors' remote servers, from which they can then deliver these programs and services seamlessly to employees' digital devices.

Increasingly, delivery occurs via "the cloud." Basically, **the cloud** refers to placing software programs and services on vendors' remote servers, from which they can then deliver these programs and services seamlessly to employees' digital devices.

Cloud-based training revolutionized training, by enabling employers to outsource much or all of their training activities. The vendor hosts both the courses and the overall learning management system. Therefore the employer needn't concern itself with setting up or updating the programs on its own computers; the vendor manages the software. Furthermore, the cloud-based learning management systems usually let trainees access the training software and courses from wherever they are, generally using employer-supplied mobile devices. This not only boosts convenience, but facilitates collaboration, for instance enabling trainees to work together on a project.

Developing the Program

Program development means actually assembling the program's training content and materials. It means choosing the specific content the program will present, as well as designing/choosing the specific instructional methods (lectures, cases, web-based, and so on) you will use. Training equipment and materials include (for example) iPads, workbooks, lectures, PowerPoint slides, web- and computer-based activities, course activities, and trainer resources (manuals, for instance).

Some employers create their own training content, but there's also a vast selection of online and offline content. The Association for Talent Development's website

(www.td.org) illustrates the many off-the-shelf training and development offerings available. It includes certificate programs on topics such as coaching, consulting skills, and presentation skills, as well as online workshops on hundreds of topics such as game design, survey design, and developing a mentoring program. (Trainers Warehouse and HRdirect are among many other off-the-shelf training offerings suppliers.)[58]

HR in Action at the Hotel Paris As Lisa and the CFO reviewed measures of the Hotel Paris's current training efforts, it was clear that some changes were in order. Most other service companies provided at least 40 hours of training per employee per year, while the Hotel Paris offered, on average, no more than five or six. To see how they handled this, see the case at the end of this chapter.

LEARNING OBJECTIVE 8-4

Explain how to use five training techniques.

Implementing the Training Program

Once you design and develop the training program, management can implement and then evaluate it. *Implement* means actually provide the training, using one or more of the instructional methods we discuss next.

Note first that there are several practical steps one can take before, during, and after the actual training to improve trainees' learning and engagement:

Before the actual training, send announcements far in advance, provide directions, provide a contact, and make sure participants have pretraining materials.

During training, make sure all participants have a point of contact in case they have questions or need guidance.

After training, remember training does *not* end when the program ends. Instead, periodically ascertain that trainees are transferring their learning to the job.[59]

The pandemic changed how employers delivered talent development. Between 2019 and 2020, the percentage of responding employers using instructor-led face-to-face classroom learning dropped from 40% to 16%. Those using self-paced e-learning rose from 26% to 32%. And the use of live virtual instructor-led classrooms increased from 19% to 35%.[60]

On-the-Job Training

We'll see that training increasingly takes place online or uses other digital tools such as smart phones. However, much training is still in-person and interpersonal, as on-the-job training notably illustrates.

on-the-job training (OJT)
Training a person to learn a job while working on it.

On-the-job training (OJT) means having a person learn a job by actually doing it. Every employee, from mailroom clerk to CEO, should get on-the-job training when starting a job. In many firms, OJT is the only training available.[61]

TYPES OF ON-THE-JOB TRAINING The most familiar on-the-job training is the *coaching or understudy method*. Here, an experienced worker or the trainee's supervisor trains the employee. This may involve simply observing the supervisor, or (preferably) having the supervisor or job expert show the new employee the ropes, step-by-step. On-the-job training was part of multifaceted training at Men's Wearhouse, which combined on-the-job training with comprehensive initiation programs and continuing-education seminars. Every manager was accountable for developing his or her subordinates.[62] *Job rotation*, in which an employee (usually a management trainee) moves from job to job at planned intervals, is another OJT technique. *Special assignments* similarly give lower-level executives firsthand experience in working on actual problems.

Do not take the on-the-job training effort for granted. Instead, plan out and structure the OJT experience. Train the trainers themselves (often the employees' supervisors), and provide training materials. (They should know, for instance, how to motivate learners). Because low expectations may translate into poor trainee performance, supervisor/trainers should emphasize their high expectations. Effective coaching is essential. In one study of pharmaceuticals sales representatives, supervisors' coaching skills were associated with significant differences in goal attainment between sales districts.[63]

Many firms use *peer training* for OJT.[64] For example, some adopt "peer-to-peer development." The employer selects several employees who spend several days per week over several months learning what the technology or change will entail, and then spread the new skills and values to their colleagues back on the job.[65] Others

use employee teams to analyze jobs and prepare training materials. Some teams reportedly conduct task analyses more quickly and effectively than did training experts. Figure 8-1 presents steps to help improve OJT success.[66]

FIGURE 8-1 Steps in On-the-Job Training

Step 1: Prepare the learner	
	1. Put the learner at ease. **2.** Explain why he or she is being taught. **3.** Create interest and find out what the learner already knows about the job. **4.** Explain the whole job and relate it to some job the worker already knows. **5.** Place the learner as close to the normal working position as possible. **6.** Familiarize the worker with equipment, materials, tools, and trade terms.
Step 2: Present the operation	
	1. Explain quantity and quality requirements. **2.** Go through the job at the normal work pace. **3.** Go through the job at a slow pace several times, explaining each step. Between operations, explain the difficult parts, or those in which errors are likely to be made. **4.** Again, go through the job at a slow pace several times; explain the key points. **5.** Have the learner explain the steps as you go through the job at a slow pace.
Step 3: Do a tryout	
	1. Have the learner go through the job several times, slowly, explaining each step to you. Correct mistakes and, if necessary, do some of the complicated steps the first few times. **2.** Run the job at the normal pace. **3.** Have the learner do the job, gradually building up skill and speed. **4.** Once the learner can do the job, let the work begin, but don't abandon him or her.
Step 4: Follow-up	
	1. Designate to whom the learner should go for help. **2.** Gradually decrease supervision, checking work from time to time. **3.** Correct faulty work patterns before they become a habit. Show why the method you suggest is superior. **4.** Compliment good work.

Shadow Learning

One survey from Accenture concluded that four-fifths of workers learned their job skills on-the-job, but such training is under threat.[67] The problem is that technologies such as robots and artificial intelligence are changing how jobs are done. For example, student-surgeons used to learn surgery by literally operating together on a patient with a surgeon-mentor. Today, the same operation may well be accomplished by a surgeon sitting far away from the patient while manipulating a robotic operating machine. Studies show that those already skilled in the job (in this case robotic surgery) are less willing to take the time to explain the intricacies of the robot machine, or to hand over the highly sensitive controls to inexperienced student-surgeons. As a result, the students often must fend for themselves.

shadow learner
Learners who seek opportunities to learn and practice their jobs in nontraditional ways.

One way to do so is to become a "**shadow learner**." Shadow learners seek out opportunities to learn and practice their jobs in nontraditional ways. Thus student-surgeons may seek out opportunities to learn the intricacies of the robot surgery machine after hours, or by helping surgeons who `are using it for less challenging operations.

Apprenticeship Training

apprenticeship training
A structured process by which people become skilled workers through a combination of classroom instruction and on-the-job training.

Apprenticeship training is a process by which people become skilled workers, usually through a combination of formal learning and long-term on-the-job training, often

under a master craftsperson's tutelage. Many employers ranging from Siemens and Alcoa to Dow Chemical offer apprenticeship programs.[68] When one steelmaker saw that many of its employees would be retiring within several years, it revived its apprenticeship program. New recruits spent about 32 months learning various jobs under experienced employees.[69]

Many apprenticeships pay well. For example, at the Tennessee Valley Authority, starting apprentices earn about $52,000 a year and can earn up to $77,000, before moving onto $91,000 jobs as lineworkers.[70] Various organizations and states as well as the federal government (see apprenticeship.gov) help employers create and register apprenticeship programs.[71] More than 660,000 apprentices participate in over 28,000 programs; registered programs can receive federal and state contracts and other assistance.[72]

Figure 8-2 lists popular apprenticeships.

FIGURE 8-2 Some Popular Apprenticeships

Source: From Available Occupations, www.doleta.gov/OA/occupations.cfm, accessed March 4, 2018. This lists apprenticeships by city and state. For actual apprenticeship listings by employer and state, see, https://www.apprenticeship.gov/apprenticeship-job-finder, accessed December 6, 2022.

The U.S. Department of Labor's Registered Apprenticeship program offers access to more than 1,000 occupations, such as the following:

- Able seaman
- Carpenter
- Chef
- Child care development specialist
- Construction craft laborer
- Dental assistant
- Electrician
- Elevator constructor
- Fire medic
- Law enforcement agent
- Over-the-road truck driver
- Pipefitter

Informal Learning

Training experts use the notation "70/20/10" to show that as a rule, 70% of job learning occurs, often informally, from assignments and experiences, 20% reflects social interactions (for instance, among employees on the job), and only 10% is actual formal training.[73] A sampling of what would constitute informal learning would include participating in meetings, coaching other people, attending conferences, searching the Internet for information, working with customers, job rotation, reading books and journals, playing video games, and watching TV.[74]

Given its importance, employers facilitate informal learning. For example, one Siemens plant places tools in cafeteria areas to take advantage of the work-related discussions taking place. Even installing whiteboards with markers can facilitate informal learning.[75] Google supports on-site cafeterias, with free or subsidized food. Employees eat together, and through their interactions learn new ideas and build stronger relationships.[76]

Job Instruction Training

job instruction training (JIT)
Listing each job's basic tasks, along with key points, in order to provide step-by-step training for employees.

Many jobs consist of a sequence of steps best learned step-by-step. Such step-by-step training is called **job instruction training (JIT)**. First, list the job's required steps (let's say for using a mechanical paper cutter) each in its proper sequence. Then list a corresponding "key point" (if any) beside each step. The steps in such a *job instruction training sheet* show trainees what to do, and the key points show how it's to be done—and why, is as follows:

Steps	Key Points
1. Start motor	None
2. Set cutting distance	Carefully read scale—to prevent wrong-sized cut
3. Place paper on cutting table	Make sure paper is even—to prevent uneven cut
4. Push paper up to cutter	Make sure paper is tight—to prevent uneven cut
5. Grasp safety release with left hand	Do not release left hand—to prevent hand from being caught in cutter

6. Grasp cutter release with right hand	Do not release right hand—to prevent hand from being caught in cutter
7. Simultaneously pull cutter and safety releases	Keep both hands on corresponding releases—avoid hands being on cutting table
8. Wait for cutter to retract	Keep both hands on releases—to avoid having hands on cutting table
9. Retract paper	Make sure cutter is retracted; keep both hands away from releases
10. Shut off motor	None

As another example, the "van exit" steps UPS teaches drivers include: Shift into the lowest gear or into park; turn off the ignition; apply the parking brake; release the seatbelt with left hand; open the door; place the key on your ring finger.[77]

Lectures

Lecturing is a quick and simple way to present knowledge to large groups of trainees, as when the sales force needs to learn a new product's features.[78] Here are some guidelines for presenting a lecture:[79]

- Don't start out on the wrong foot, for instance, with an irrelevant joke.
- Speak only about what you know well.
- Remember that clarity is king: make sure your audience is clear about what you're saying.
- Give your listeners signals. For instance, if you have a list of items, start by saying something like, "There are four reasons why the sales reports are necessary. . . . The first. . . ."
- Use anecdotes and stories to show rather than tell.
- Be alert to your audience. Watch body language for negative signals like fidgeting or boredom.
- Maintain eye contact with the audience.
- Make sure everyone can hear. Repeat questions that you get from trainees.
- Leave hands hanging naturally at your sides.
- Talk from notes or PowerPoint slides, rather than from a script.
- Break a long talk into a series of short talks. Don't give a short overview and then spend a 1-hour presentation going point by point through the material. Break the long talk into a series of 10-minute talks, each with its own introduction. Write brief PowerPoint slides, and spend about a minute on each. Each introduction highlights what you'll discuss, why it's important to the audience members, and why they should listen to you.[80]
- Practice. If possible, rehearse under conditions similar to those under which you will actually give your presentation.

Programmed Learning

programmed learning
A systematic method for teaching job skills, involving presenting questions or facts, allowing the person to respond, and giving the learner immediate feedback on the accuracy of his or her answers.

Whether the medium is a textbook, iPad, or the Internet, **programmed learning** is a step-by-step, self-learning method that consists of three parts:

1. Presenting questions, facts, or problems to the learner
2. Allowing the person to respond
3. Providing feedback on the accuracy of answers, with instructions on what to do next

Generally, programmed learning presents facts and follow-up questions frame by frame. What the next question is often depends on how the learner answers the previous question. The built-in feedback from the answers provides reinforcement.

Programmed learning reduces training time. It also facilitates learning by letting trainees learn at their own pace, get immediate feedback, and reduce their risk of error. Some argue that trainees do not learn much more from programmed learning than from a textbook. In addition to the usual programmed learning, computerized *intelligent tutoring systems* learn what questions and approaches worked and did not work for the learner, and then adjust the instructional sequence to the trainee's unique needs.

Behavior Modeling

behavior modeling
A training technique in which trainees are first shown good management techniques in a film, are asked to play roles in a simulated situation, and are then given feedback and praise by their supervisor.

Behavior modeling involves (1) showing trainees the right (or "model") way of doing something, (2) letting trainees practice that way, and then (3) giving feedback on the trainees' performance. Behavior modeling is one of the most widely used, well-researched, and highly regarded psychologically based training interventions.[81] The basic procedure is as follows:

1. ***Modeling***. First, trainees watch live or video examples showing models behaving effectively in a problem situation. Thus, the video might show a supervisor effectively disciplining a subordinate, if teaching "how to discipline" is the aim of the training program.
2. ***Role-playing***. Next, the trainees get roles to play in a simulated situation; here they are to practice the effective behaviors demonstrated by the models.
3. ***Social reinforcement***. The trainer provides reinforcement in the form of praise and constructive feedback.[82]
4. ***Transfer of training***. Finally, trainees are encouraged to apply their new skills when they are back on their jobs.

Audiovisual-Based Training

Although increasingly replaced by other methods, audiovisual-based training techniques like DVDs, films, PowerPoint, and audiotapes are still used.[83] The Ford Motor Company uses videos in its dealer training sessions to simulate problems and reactions to various customer complaints, for example.[84]

Videos today are easier and less expensive to produce. Video equipment is more widely available, and, in a pinch, includes smart phones. And after years of watching YouTube videos, most people aren't put off by slightly low quality videos.[85]

Vestibule Training

With vestibule training, trainees learn on the actual or simulated equipment but are trained off the job (perhaps in a separate room or *vestibule*). Vestibule training is necessary when it's too costly or dangerous to train employees on the job. Putting new assembly-line workers right to work could slow production, for instance, and when safety is a concern—as with pilots—simulated training may be the only practical alternative. As an example, UPS uses a life-size learning lab to provide a 40-hour, 5-day realistic training program for driver candidates.[86]

Electronic Performance Support Systems (EPSSs)

electronic performance support systems (EPSSs)
Sets of computerized tools and displays that automate training, documentation, and phone support; integrate this automation into applications; and provide support that's faster, cheaper, and more effective than traditional methods.

job aid
A set of instructions, diagrams, or similar methods available at the job site to guide the worker.

Electronic performance support systems (EPSSs) are computerized tools and displays that automate training, documentation, and phone support.[87] When you call a Dell service rep, they're probably asking questions prompted by an EPSS; it takes you both, step-by-step, through an analytical sequence. Without the EPSS, Dell would have to train its service reps to memorize an unrealistically large number of solutions. Clients such as Oracle, HP, and L'Oréal use customized EPSS solutions from Whatfix (https://whatfix.com/reviews/).[88]

Performance support systems are modern job aids. **Job aids** are sets of instructions, diagrams, or similar methods available at the job site to guide the worker.[89] Job aids work particularly well on complex jobs that require multiple steps, or where it's dangerous to forget a step. For example, airline pilots use job aids (a checklist of things to do prior to takeoff).

Videoconferencing

Videoconferencing involves delivering programs over broadband lines, the Internet, or satellite. Vendors such as Cisco offer videoconference products such as TelePresence.[90] Cisco's product line combines Cisco group collaboration and decision-making software with videoconferencing, video telephony, and realistic "TelePresence" capabilities.[91] Similar technologies include Adobe Connect, WebEx, Microsoft Teams, and, of course, Zoom.[92]

Videoconference learning is a form of *distance learning*. Trainers use distance learning in new ways.[93] For example, Johns Hopkins uses distance learning to enable students and residents to watch physicians as they make their hospital rounds. The treating physicians have cameras mounted on them. Students and residents see exactly what physicians are seeing, and can interact with them.

Computer-Based Training

Computer-based training (CBT) simply means using computers to deliver and access training and to thereby to increase knowledge or skills.[94]

As we'll see, such training is increasingly realistic. For example, *interactive multimedia training* integrates text, video, graphics, photos, animation, and sound to create a complex training environment with which the trainee interacts.[95] The National Wildfire Coordinating Group use interactive multimedia training to show hazard workers such as those who fight wildfires how to do their jobs. Objectives of one course include using navigation tools and maps to identify location, and sizing up a fire situation.[96] Computer-based training is also increasingly adaptive, which means trainers can adapt the learning in real time to each learner's progress and needs.[97] CBT supports a variety of specific learning methodologies, as discussed next.

Online/Internet-Based Training

Online learning is popular due to the efficiencies and convenience involved. For example, Utah-based Clearlink's employee training used to be classroom based. Sales agents often returned to the field without being tested on what they learned, and in general the training was less than effective. Clearlink switched to online learning. Its trainers turned to creating new online e-learning courses and monitoring training results. The sales agents were relieved to be able to get their training on demand without interfering with their daily duties. The company estimates it saved almost $800,000 per year by going online.[98] ADP trains new salespeople online, using a learning management system similar to one used by college students.[99]

Learning management systems (LMSs) are software tools that support online training by helping employers identify training needs and to schedule, deliver, assess, and manage the online training itself. GM uses an LMS to help dealers deliver training. The LMS includes a course catalog, supervisor-approved self-enrollment, and pre- and postcourse tests.[100]

Online learning doesn't necessarily teach people faster or better.[101] But, of course, the need to teach large numbers of students remotely, or to enable trainees to study on demand often makes e-learning attractive.[102] Some employers opt for *blended learning*. Here, trainees use multiple delivery methods (such as manuals, in-class lectures, and web-based seminars or "webinars") to learn the material.[103] Thus, tool manufacturer Stihl offers tool and die makers online learning combined with hands-on technical training classes.[104] We'll look closer at some online learning elements.

LEARNING PORTALS A learning portal offers employees online access to training courses. Many employers arrange to have an online training vendor make its courses available via the employer's portal (often via the cloud).[105] Often, the employer contracts with application service providers (ASPs). When employees go to their own firm's learning portal, they actually link to the menu of training courses that the ASP offers for the employer.

Suppliers of learning portals include www.Skillsoft.com. Skillsoft offers access to thousands of cases, courses, webinars, and other education content.[106] Employers such as L'Oréal and AT&T help their employees enroll in *moocs* (massive open online courses), widely available through platforms such as Coursera and EDX.

virtual classroom
Teaching method that uses special collaboration software to enable multiple remote learners, using their PCs or laptops, to participate in live audio and visual discussions.

THE VIRTUAL CLASSROOM A **virtual classroom** uses collaboration software to enable multiple remote learners, using their PCs, tablets, laptops, or phones to participate remotely in live audio and visual discussions.

Ideally, a virtual classroom combines the best of a traditional classroom with online distance learning.[107] Thus, Elluminate Live! lets learners view video, collaborate with colleagues, and learn with shared PowerPoint slides, all at a distance.[108]

Web 2.0 learning
Training that uses online technologies such as social networks, virtual worlds (such as Second Life), and systems that blend synchronous and asynchronous delivery with blogs, chat rooms, bookmark sharing, and tools such as 3-D simulations.

WEB 2.0 LEARNING **Web 2.0 learning** programs utilize online technologies such as social networks, virtual worlds (such as Second Life), and systems blending synchronous and asynchronous delivery with blogs, chat rooms, bookmark sharing, and tools like 3-D simulations.[109] *Collaborative peer forums* enable peers to remotely share their experiences, and to thereby learn collaboratively, from each other.[110] *Scenario-based e-learning* involves inserting realistic situations ("work scenarios") into trainees' e-learning lessons.[111]

For example, British Petroleum (BP) has used Second Life to train new gas station employees. The aim is to show new gas station employees how to use the safety features of gasoline storage tanks. BP built three-dimensional renderings of the tank systems in Second Life. Trainees use these to "see" underground and observe the effects of using the safety devices.[112]

Mobile and Micro Learning

More learning and development is being "microsized" and delivered through mobile devices.[113]

Mobile learning (or "on-demand learning") means delivering learning content on the learner's demand, via mobile devices like smart phones, laptops, and tablets, wherever and whenever the learner has the time and desire to access it.[114] For example, trainees can take full online courses using dominKnow's (www.dominknow.com) iPhone-optimized Touch Learning Center Portal.[115]

Most large employers distribute internal communications and training via mobile devices.[116] Employees at CompuCom Systems Inc. access instruction manuals that way; the company subsidizes employee purchases of smart phones or tablets to facilitate this. J. P. Morgan encourages employees to use instant messaging, for instance, to update colleagues about new products quickly. Interfaces such as Apple's Siri facilitate such training.[117]

The essential requirement here is to link desired outcomes (such as quickly brushing up on "how to close a sale") with concise and targeted micro lessons.[118] IBM uses it to deliver just-in-time information (for instance, about new product features) to its sales force. To facilitate this, its training department often breaks up, say, an hour program into "micro" 10-minute pieces. Such "micro learning" training requires "stripping down" the message to its essentials.[119] Graphics and videos improve the experience.

The Strategic Context: *On-Demand Micro Learning at Uber*[120]

If you think all those Uber drivers simply go on the road with no formal training, you're wrong. There are hundreds of things those drivers must know about driving for Uber—from how to use the Uber app and driving systems, to how to greet and deal with customers—and Uber needs to train more than 30,000 new drivers every week. How do they do it?

Uber's training challenge is similar to that of many firms that rely on gig workers. The main problems are (1) most trainees aren't permanent employees but largely just "passing through," so you must carefully control what you invest in their training; and (2) the workers are all working on their own schedules, so training must be available when each worker wants it, on demand.

So, the short answer to "How does Uber do it?" is that driver training is online, on-demand, and delivered in microparcels. Uber uses a learning management system called MindFlash. This offers its clients around the globe thousands of courses, often focused on training gig workers like Uber's.[121] Among other benefits, the MindFlash system provides real-time reporting of trainees' results, so Uber knows if a driver is ready to go to work.

Gig-friendly training programs like Uber's have several characteristics. First, everyone involved—management, HR, and especially the gig workers—submit detailed "blueprints" of the workers' daily activities, from which workers' (in this case drivers') duties, skills and knowledge, and required training can be ascertained. Then, the courses are split into short digestible microcourses, stored on the vendor's cloud, and delivered on demand to each worker's mobile device. Which is all exactly what Uber's strategic reliance on remote gig workers requires.

Mixed Reality, Simulated Learning, and Gaming

BP's use of Second Life for training (mentioned earlier) illustrates using virtual, meta worlds for training. At Stanford University, brain surgeons prepare for operations by reviewing brain scans using virtual reality (VR) headsets. These create three-dimensional virtual views surgeons use to understand what to expect during an operation.[122]

Employers from Stanford to Walmart increasingly deliver training using versions of a simulated reality, either *virtual reality* (VR), or *augmented reality* (AR), both of which are examples of *mixed reality* (MR).

Virtual reality (VR) puts the trainee in an artificial three-dimensional environment that simulates events and situations experienced on the job.[123] Sensory devices transmit how the trainee is responding to the computer, and the trainee "sees, feels, and hears" what is going on, assisted by special goggles and sensory devices.[124] Several National Football League teams use VR to train their quarterbacks in going through plays.[125] Walmart ordered 17,000 Oculus virtual-reality headset devices to support its retail employee training programs.[126] Facebook's purchase of Oculus VR Inc. highlights virtual reality's growing potential.[127] Virtual reality always requires devices such as headsets. This is because it involves creating an entirely virtual environment (reality), through which the participants must immerse themselves and navigate.[128]

With augmented reality (AR), the "augmented" part of the augmented reality experience is usually superimposed in the real-world setting, (for instance a driver's speed and direction may appear on the windshield). Similarly, trainers use AR to superimpose 3-D holographs on actual video scenes. Thus they might superimpose a "wounded" person in an actual collision. Therefore AR usually doesn't always require headsets, although it may.

Both augmented and virtual reality have pros and cons. AR and VR both create a training experience that is more realistic then, say, role-playing. VR enables trainers to create complete, customized environments for their trainees. AR is said to be less disorienting to the trainee than VR because with AR, the trainee is navigating a mostly real experience rather than a virtual one. VR training experiences can be expensive to develop, so its cost-effectiveness depends on the number of trainees. One study found that with about 375 trainees, a custom-made VR training course costs about the same per trainee as would classroom learning.[129]

SIMULATED LEARNING AND GAMING "Simulated learning" means different things to different people. A survey asked training professionals what experiences qualified as simulated learning experiences. Answers included "virtual reality-type games," "step-by-step animated guide," "scenarios with questions and decision trees overlaying animation," and "online role-play with photos and videos."[130]

The U.S. Armed Forces use simulation-based training programs. For example, it developed the video game–type training programs Full-Spectrum Command and Full-Spectrum Warrior for training troops in urban warfare. They offer realistic "you are there" features and cultivate leadership and decision-making skills.[131] Orlando-based Environmental Tectonics Corporation created an Advanced Disaster Management simulation for emergency medical response trainees. One simulated scenario involves a plane crash. So realistic that it's "unsettling," trainees including firefighters and airport officials respond to the simulated crash's sights and sounds via pointing devices and radios.[132]

Specialist multimedia companies such as Simulation Development Group (https://simulationstudios.com/) produce programs like these.[133] They produce custom titles as well as generic programs, for instance for leadership development.

Virtual reality puts the trainee in an artificial three-dimensional environment that simulates events and situations experienced on the job.

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Training games needn't be complicated. For example, Korea Ginseng Corp. trainers wrote games accessible through apps. Each round of each game consists of five multiple-choice quizzes. The more answers trainees get right, the more points they earn. Trainees compete against each other, with the top trainees profiled publicly.[134]

Lifelong and Literacy Training Techniques

lifelong learning
Provides employees with continuing learning experiences over their tenure with the firm, with the aims of ensuring they have the opportunity to learn the skills they need to do their jobs and to expand their occupational horizons.

Lifelong learning means providing employees with continuing learning experiences over their time with the firm, with the aim of ensuring they have the opportunity to learn the skills they need to do their jobs and to expand their horizons. Lifelong learning may thus range from basic remedial skills (for instance, English as a second language) to college degrees. Papa John's partnered with Purdue University Global.[135] Papa John's covers all tuition costs for its corporate employees to earn undergraduate and graduate degrees through Purdue's online learning programs. When one Amazon employee was seeking a new career, he took advantage of Amazon's extensive free technical training opportunities; he learned engineering and robotics skills that now enable him to travel the USA repairing Amazon's equipment.[136]

Some states support lifelong learning with tax credits. For example, Washington State offers employers a lifelong learning account (LiLA) program. Similar to 401(k) plans, LiLAs accept employer and employee contributions (without the tax advantages of 401(k) plans). The employee can use these funds for learning.[137]

LITERACY TRAINING By one estimate, about one in seven workers can't read their employers' manuals.[138]

Employers often turn to private firms like Education Management Corporation to provide the requisite education.[139] Another simple approach is to have supervisors teach basic skills by giving employees writing and speaking exercises.[140] For example, if an employee needs to use a manual to find out how to change a part, teach that person how to use the index to locate the relevant section. Some call in teachers from a local high school. The National Center for Literacy Education provides source material and suggestions for literacy training.[141]

DIVERSITY TRAINING Diversity training aims to improve cross-cultural sensitivity, so as to foster more harmonious working relationships among a firm's employees. It typically includes improving interpersonal skills, understanding and valuing cultural

differences, improving technical skills, socializing employees into the corporate culture, indoctrinating new workers into the U.S. work ethic, improving English proficiency and basic math skills, and improving bilingual skills for English-speaking employees.[142]

Most employers opt for an off-the-shelf diversity training program such as Just Be F.A.I.R. from Sollah Interactive. It includes full video, audible narration, user interactions, and pre- and postassessments. Vignettes illustrate such things as the potential pitfalls of stereotyping people.[143] Prism (www.prismdiversity.com/) offers employers diversity and inclusion courses such as "Choosing Respectful Behaviors for All Employees" and "Inclusion and Diversity Training for Executives."[144] The Diversity Counts feature expands on this.

DIVERSITY COUNTS

Training to Overcome Unconscious Bias

Some workplace bias may unfortunately be intentional, but most is probably unconscious. People unthinkingly say things or take actions that are driven by assumptions (such as inaccurate stereotypes about people from particular groups) that are both unconscious and wrong.

Most employers are aware of the potential negative effects of unconscious bias and offer training to deal with it. Studies suggest that most such programs don't result in positive change.[145] Many programs don't offer specific "how-to" strategies for overcoming unconscious bias. Some leave the impression that there's not much to do once unconscious bias is baked into how someone thinks. And most don't follow up by measuring if the program succeeds, for instance in terms of new hires and promotions.

However, effective unconscious bias training is both feasible and used by many employers. Such programs usually begin (as do the traditional programs) with "background" explanations of what bias is, how it is measured, and (specifically, with examples) how it can harm organizational functioning. Then, (in a departure from traditional programs), trainees take a test to assess their unconscious bias, and then get feedback and discuss it.

Next, trainers provide specific strategies for overcoming unconscious bias. These include, for instance, *identifying specific stereotypical behaviors* (for instance, jumping to conclusions based on stereotypes); and *getting more information* about one's employees, so as to build a better understanding of them. Trainees then present specific examples of how they could use the strategies on their jobs. Finally *assess the program's effectiveness*, for instance, in terms of subsequent hiring and promotion results. ■

Team Training

Teamwork doesn't always come naturally. Companies devote many hours to training new employees to listen to each other and to cooperate. For example, a plant suffered from high turnover and absenteeism.[146] The plant manager addressed these in part through team training to improve team functioning. Team training focused on technical, interpersonal, and team management issues. In terms of *technical training*, for instance, management encouraged team employees to learn each other's jobs, to encourage flexible team assignments. **Cross training** means training employees to do different tasks or jobs than their own; doing so facilitates job rotation, as when you expect team members to occasionally share jobs or parts of jobs.[147] For example, Target gives new employees the opportunity to receive training for positions in other areas of the store.[148] This gives Target the flexibility of moving employees to high demand areas during the day. It also provides opportunities for professional growth and career options for employees.

cross training
Training employees to do different tasks or jobs than their own; doing so facilitates flexibility and job rotation.

Interpersonal problems often undermine teamwork. The plant manager's team training program also therefore included *interpersonal skills* training such as in listening, communicating, and negotiating. Effective teams also require *team management* skills, for instance, in problem solving and meetings management.

Many employers use team training to build more cohesive management teams. Some use outdoor "adventure" training for this. This involves taking the management team out into rugged terrain, perhaps to learn "survival" skills and thereby foster trust and cooperation. App builder RealScout used the California Survival School for one program. Coders, marketing executives, and others spent several days in the mountains surviving—building their own shelters and learning to forage for food and start fires without matches. The reasonable assumption is that the teamwork learned surviving in the field will carry over once the team is back in the office.[149]

HR Tools for Line Managers and Small Businesses: Creating Your Own Training Program

While it would be nice if supervisors in even the largest firms could expect their firms to provide packaged training programs to train the new people they hire, many times they cannot. However, you still have many options.

CREATE YOUR OWN FIVE-STEP TRAINING PROGRAM Remember ADDIE—analyze (is training the problem?), design (including learning objectives, and motivating the trainee), develop (what specific materials and methods will we use?), implement (train the person), and evaluate. For many types of jobs, start by *setting training objectives*—be specific about what your employee should be able to do after training. Write a job description—list of the job's duties—if not already available. Write (see Table 8-1 earlier in this chapter) a *task analysis record form* showing the steps in each of the employee's tasks. Write a *job instruction training form*; here list a key point (such as "carefully read scale") for each step (such as "set cutting distance"). Finally, compile the objectives, job description, task analysis form, and job instruction form in a *training manual*. Also, include an introduction to the job and an explanation of how the job relates to other jobs in the company.

USE PRIVATE VENDORS The small business owner can tap hundreds of suppliers of prepackaged training solutions. These range from self-study programs from the American Management Association (www.amanet.org) and SHRM (www.shrm.org), to specialized programs. For example, the employer might arrange with PureSafety to have its employees take occupational safety courses from www.puresafety.com.

SkillSoft.com is another example.[150] Its courses include software development, business strategy and operations, professional effectiveness, and desktop computer skills. The buyer's guide from the Association for Talent Development (www.td.org) is a good place to start to find a vendor (check under "Resources and Tools").[151]

CHECK THE SBA The government's Small Business Administration (see www.SBA.gov/training) provides a virtual campus that offers online courses, workshops, publications, and learning tools aimed at supporting small businesses.[152] For example, the small business owner can link under "Small Business Planner" to "Writing Effective Job Descriptions," and to "The Interview Process: How to Select the Right Person." See the site map at www.sba.gov/sitemap for examples of what it offers.

CHECK NAM The National Association of Manufacturers (NAM) is the largest industrial trade organization in the United States. It represents about 14,000 member manufacturers, including 10,000 small and midsized companies.

NAM helps employees maintain and upgrade their work skills and continue their professional development. It offers courses and a skills certification process.[153] There are no long-term contracts to sign. Employers simply pay about $10–$30 per course taken by each employee. The catalog includes OSHA, quality, and technical training as well as courses in areas like customer service.

LEARNING OBJECTIVE 8-5

List and briefly discuss four management development methods.

Implementing Management Development Programs

Management development is any attempt to improve managerial performance by imparting knowledge, changing attitudes, or increasing skills. It thus includes in-house programs like courses, coaching, and rotational assignments; professional programs like those given by SHRM; online programs from various sources; and university programs like MBAs.

management development
Any attempt to improve current or future management performance by imparting knowledge, changing attitudes, or increasing skills.

Management development is important for several reasons. For one thing, promotion from within is a major source of management talent, and virtually all promoted managers require development to prepare them for their new jobs. Furthermore, management development facilitates organizational continuity, by preparing employees and current managers to smoothly assume higher-level positions.

Strategy's Role in Management Development

Management development programs should reflect the firm's strategic plans. For example, strategies to enter new businesses or expand overseas imply that the employer will need succession plans to obtain and/or develop managers who have the skills to manage these new businesses. Management development programs then impart the knowledge, attitudes, and skills these managers will need to excel at their jobs.[154]

Some management development programs are companywide and involve all or most new (or potential) managers. Thus, new MBAs may join GE's management development program and rotate through various assignments and educational experiences. The firm may then slot superior candidates onto a "fast track," a development program that prepares them more quickly for senior-level commands. Other development programs aim to fill specific top positions, such as CEO.

Management development supports the employer's *succession planning process.*[155] *Succession planning*, as explained in Chapter 5, involves developing workforce plans for the company's top positions; it is the ongoing process of systematically identifying, assessing, and developing organizational leadership to enhance performance.

Candidate Assessment and the 9-Box Grid

Some high-potential managers fail in their jobs, while some low-potential managers excel. How then does an employer choose who to send through an expensive development program?

The 9-Box Grid is one tool. It shows *Potential* from low to medium to high on the vertical axis, and *Performance* from low to medium to high across the bottom—a total of nine possible boxes.

The grid can simplify, somewhat, the task of choosing development candidates. At the extremes, for instance, low potentials/low performers would not move on. The high-potential/high-performance stars most assuredly would. Most employers focus their development resources on high-performance/high-potential stars, and secondarily on those rated high-potential/moderate-performance, or high-performance/moderate-potential.[156] Other employers focus development resources on the company's "mission-critical employees"—those central to the firm's success and survival. We'll see how later in this section.

In any case, individual assessment should always precede development. At frozen foods manufacturer Schwan, senior executives first whittle 40 or more development candidates down to about 10. Then their program begins with a 1-day assessment by outside consultants of each manager's leadership strengths and weaknesses. This assessment becomes the basis for each manager's individual development plan. Action-learning (practical) projects then supplement individual and group training activities.[157]

We'll look at some popular development activities next.

job rotation
A management training technique that involves moving a trainee from department to department to broaden his or her experience and identify strong and weak points.

Managerial On-the-Job Training and Rotation

Managerial on-the-job training methods include job rotation, the coaching/understudy approach, and action learning. **Job rotation** means moving managers from department to department to broaden their understanding of the business and to

test their abilities. The trainee may be a recent college graduate, or a senior manager being groomed for further promotion. In addition to providing a well-rounded experience, job rotation helps avoid stagnation, through the constant introduction of new points of view in each department. It also helps identify each trainee's strong and weak points. Periodic job changing can also improve interdepartmental cooperation: managers become more understanding of each other's problems; and rotation widens one's acquaintances among management. At LVMH (which owns Louis Vuitton), rotating employees among luxury brands gives employees what two experts call "extraordinarily rich learning opportunities."[158]

COACHING/UNDERSTUDY APPROACH In this on-the-job method, the trainee works directly with a senior manager or with the person being replaced; the latter is responsible for the trainee's coaching. Normally, the understudy relieves the executive of certain responsibilities, giving the trainee a chance to learn the job.

action learning
A training technique by which management trainees are allowed to work full-time analyzing and solving problems in other departments.

ACTION LEARNING **Action learning** programs give managers released time to work analyzing and solving problems in departments other than their own. It is one of the fastest-growing leadership development techniques, used by companies ranging from Wells Fargo to Boeing.[159] Basics include carefully selecting teams of 5 to 25 members, assigning them real-world business problems that extend beyond their usual areas of expertise, and structured learning through coaching and feedback. The employer's senior managers usually choose the projects and decide whether to accept the teams' recommendations.[160]

For example, one Pacific Gas & Electric Company (PG&E) program had three phases:

1. A 6- to 8-week *framework* phase, where the team defines and collects data on an issue;
2. The *action forum*—2 to 3 days at PG&E's learning center discussing the issue and developing recommendations; and
3. *Accountability sessions*, where the teams meet with management to review progress.[161]

STRETCH ASSIGNMENTS Stretch assignments are assignments that "push employees beyond their comfort zone," placing them in jobs and assignments different from and more demanding than those to which they are accustomed.[162] The critical issue here is to understand the employee's capabilities: The assignment should be challenging but not overwhelming.

COACHING APPS Many employers use virtual leadership coaching delivered via websites such as Pluma.[163] This mobile coaching app links the employer's emerging leaders (selected managers below the executive level) with Pluma's experienced and certified coaches. The program includes an initial appraisal of the manager, goalsetting with coaches, and then ongoing interactions, for instance via instant messaging.

Off-the-Job Management Training and Development Techniques

There are also many off-the-job methods for training and developing managers.

case study method
A development method in which the manager is presented with a written description of an organizational problem to diagnose and solve.

As most everyone knows, the **case study method** has trainees solve realistic problems after studying written or video case descriptions. The person analyzes the case, diagnoses the problem, and presents his or her findings and solutions in a discussion with other trainees. *Integrated case scenarios* create long-term, comprehensive case situations. One FBI Academy scenario starts with "a concerned citizen's telephone call and ends 14 weeks later with a simulated trial. In between is the stuff of a genuine investigation. . . ." The scripts include background stories, detailed personnel histories, and role-playing instructions; their aim is to develop specific skills, such as interviewing witnesses.[164]

management game
Computerized management games enable trainees to learn by making realistic decisions in simulated situations, and usually to receive small rewards such as badges.

Computerized **management games** enable trainees to learn by making realistic decisions in simulated situations, and usually to receive small rewards such as badges. For example, *Interpret* is a team exercise that "explores team communication, the management of information and the planning and implementation of a strategy. It raises management trainees' communication skills, helps them to better manage the information flow between individuals and the team, and improves planning and problem-solving skills."[165] In other games each team might have to decide how much to spend on advertising, how much to produce, and how much inventory to maintain.

People learn best by being involved, and games gain such involvement. They also help trainees develop problem-solving skills and focus attention on planning rather than just putting out fires. They can develop leadership skills and foster cooperation and teamwork.[166]

OUTSIDE SEMINARS Numerous companies and universities offer web-based and traditional classroom management development seminars and conferences. The selection of 1- to 3-day training programs offered by the American Management Association illustrates what's available. For instance, its offerings range from "developing your emotional intelligence" to "assertiveness training," "assertiveness training for managers," "assertiveness training for women in business," "dynamic listening skills for successful communication," and "fundamentals of cost accounting."[167] Specialized groups, such as SHRM, provide specialized seminars for their professions' members.[168]

UNIVERSITY-RELATED PROGRAMS Many universities provide executive education in leadership, supervision, and the like. These can range from 1- to 4-day programs to executive development programs lasting 1 to 4 months. The Advanced Management Program of Harvard's Graduate School of Business Administration is one of many such programs.[169]

Many employers want customized programs. In one, Hasbro sought to improve its executives' creativity skills. Dartmouth's Amos Tuck Business School provided a "custom approach to designing a program that would be built from the ground up to suit Hasbro's specific needs."[170] Technology giant Philips sought to accelerate innovation and leadership excellence. It entered a 6-year collaboration with the University of Pennsylvania's Wharton School and the Center for Creative Leadership (CCL). Their customized "Octagon" leader development program emphasized both strategic business skills, and behavioral leadership skills.[171]

role-playing
A training technique in which trainees act out parts in a realistic management situation.

ROLE-PLAYING The aim of **role-playing** is to create a realistic situation and then have the trainees assume the parts (or roles) of specific persons in that situation. Each trainee gets a role, such as:

> You are the head of a crew of telephone maintenance workers, each of whom drives a small service truck to and from the various jobs. Every so often you get a new truck to exchange for an old one, and you have the problem of deciding to which of your crew members you should give the new truck. Often there are hard feelings, so you have a tough time being fair.[172]

When combined with the general instructions and other roles, role-playing can trigger spirited discussions among the trainees. The aim is to develop trainees' skills in areas like leadership and delegating. For example, a supervisor could experiment with both a considerate and an autocratic leadership style, whereas in the real world this isn't so easy. Role-playing may also help someone to be more sensitive to others' feelings.

in-house development center
A company-based method for exposing prospective managers to realistic exercises to develop improved management skills.

CORPORATE UNIVERSITIES Many firms establish **in-house development centers** (often called *corporate universities*). GE's Crotonville, New York, management training center was one of the first; it provided GE management employees with a very extensive range of courses and seminars, such as one 2-week program for selected middle managers where they receive coaching on topics ranging from finance to presentation skills.[173]

executive coach
An outside consultant who questions the executive's associates in order to identify the executive's strengths and weaknesses, and then counsels the executive to capitalize on those strengths and overcome the weaknesses.

EXECUTIVE COACHES Many firms retain executive coaches to help develop their top managers' effectiveness. An **executive coach** is an outside consultant who questions the executive's boss, peers, subordinates, and (sometimes) family. The aim is to identify the executive's strengths and weaknesses, and to counsel the executive so the person can capitalize on those strengths and overcome the weaknesses.[174] Executive coaching can cost $50,000 per executive or more, so a careful evaluation is needed before retaining one. In particular, ask, how valuable is the manager's performance to the company, how willing is the person to participate, what is the challenge the manager is facing, and what if any are the alternatives to executive coaching? Experts recommend using formal assessments prior to coaching, to uncover strengths and weaknesses and to provide more focused coaching.[175]

The coaching field is unregulated, so managers should do their due diligence. Check references, and consult the International Coach Federation, a trade group.[176]

THE SHRM LEARNING SYSTEM The Society for Human Resource Management (SHRM) encourages HR professionals to qualify for certification by taking examinations. The society offers several preparatory training programs.[177] These include self-study, and a college/university option that includes classroom interaction with instructors and other learners.[178]

CLOUD-BASED DEVELOPMENT Technology is changing leadership development.[179] The main parts of the leadership development delivery system used to be employers, universities, and perhaps employers' corporate universities. Today, consulting firms and digital learning companies have joined the mix. As a result, more leadership development is being delivered online, and particularly in the cloud. For example, a *personal learning cloud* enables employers' chief learning officers to individualize leadership development for each trainee. They do this by selecting components from the vendor's learning cloud and combining them into personalized development experiences for specific trainees. As a result, leadership development is increasingly delivered through the cloud, rather than through classroom learning experiences.

Leadership Development at Cigna

As a leadership development example, Cigna offers various leadership development programs by specialty, for example, an Actuarial Executive Development Program, a Financial Development Program, and a HealthService Leadership Program.[180] According to Cigna, its HealthService Leadership Program (HLP) "focuses on building general leadership talent through executive coaching, dynamic rotational roles, and personalized development to create a pipeline for future executive positions at Cigna." The program entails functional rotations, each lasting 12 to 24 months, during which trainees improve their general management and leadership skills. They do this, for instance, through leadership assessments, mentorships, and experiential learning. The functions the trainees are exposed to include, for example, Marketing, Product, Finance, Service Operations, and Strategy and Business Development.

Characteristics of Effective Leadership Development Programs

What are the characteristics of effective leadership training programs?[181] One major study's findings suggest this: The best programs begin with *a thorough needs analysis* to determine tangible program goals; *mandatory participation* in the program is as effective as voluntary participation; self-administered programs are *less* effective than *trainer-based programs*; *practice-based programs* are more effective than information-based programs; providing *feedback* to trainees boosts the program's effectiveness; *on-site programs* (at the company's facilities) are generally more effective than off-site training programs; *face-to-face* leadership training programs are more effective than virtually based programs; and leadership training is as effective for *senior-level leaders* as for lower-level ones.

LEARNING OBJECTIVE 8-6

List and briefly discuss the importance of the steps in leading organizational change.

Managing Organizational Change Programs

McKinsey and Company surveyed 1,800 executives to identify why reorganizations fail. Top reasons included *employees resisting the changes*, *insufficient resources devoted to the effort*, *individual productivity declining as employees become distracted*, *leaders resisting the changes*, and *the organization chart changes but the people are still working the same*.[182] In addition, *clarity of purpose* is essential. Two change experts found that when transformations fail, it's generally because those running them either neglect to clarify up front the program's purpose, or pursue the wrong purpose, or focus on multiple purposes.[183]

In a fast changing environment, companies often have little choice but to change how they do things. Stripped to the basics, an organizational change may impact a company's *strategy*, *culture*, *structure*, *technologies*, or the attitudes and skills of its *employees*.

Again, the hardest part is often overcoming employee resistance. Individuals, groups, and sometimes seemingly the whole organization tend to resist change. They do this because they're accustomed to the usual way of doing things or because of perceived threats to their influence, for instance.[184] The question is what to do about it.

Lewin's Change Process

Psychologist Kurt Lewin formulated a model to summarize the basic process for implementing a change with minimal resistance. To Lewin, all behavior in organizations was a product of two kinds of forces: those striving to maintain the status quo and those pushing for change. Implementing change thus means reducing the forces for the status quo or building up the forces for change. Lewin's process consists of three steps:

1. ***Unfreezing*** means reducing the forces that are striving to maintain the status quo, usually by presenting a provocative problem or event to get people to recognize the need for change and to search for new solutions.
2. ***Moving*** means developing new behaviors, values, and attitudes. The manager may accomplish this through organizational structure changes, through conventional training and development activities, and sometimes through the other organizational development techniques (such as team building) we'll discuss later.
3. ***Refreezing*** means building in the reinforcement to make sure the organization doesn't slide back into its former ways of doing things—for instance, change the incentive system.

In practice, to deal with employee intransigence, some experts suggest that the manager use a process such as the following to implement the change.[185] To bring about a desired organizational change at work:

1. ***Establish a sense of urgency.*** For example, present employees with an (admittedly fictitious) analyst's report describing the firm's imminent demise.
2. ***Mobilize commitment*** through joint diagnoses of problems. Create a task force to diagnose the problems facing the department or the company. This can help to produce a shared understanding of what can and must be improved.
3. ***Create a guiding coalition.*** It's never easy to implement big changes alone. Therefore, create a "guiding coalition" of influential people. They'll act as missionaries and implementers. (Do not only choose influencers who are in key roles.[186] Instead also tap "hidden stars" who have the talent and contacts to help push through the initiative. For example, these may be people in positions to bridge several business units or functions, or who have deep working relationships within their areas of expertise.)
4. ***Develop and communicate a shared vision*** of what you see coming from the change. Keep the vision simple (for example, "We will be faster than anyone at satisfying customer needs").[187]

Create a sense of urgency, for example, by presenting employees with a report describing the firm's imminent demise—if corrective actions aren't taken.

Fizkes/Shutterstock

5. ***Help employees make the change.*** Eliminate impediments. For example, do current policies or procedures make it difficult to act? Do intransigent managers discourage employees from acting?
6. ***Aim first for attainable short-term accomplishments.*** Use the credibility from these to make additional changes.[188]
7. ***Reinforce the new ways of doing things*** with changes to the company's systems and procedures. For example, use new appraisal systems and incentives to reinforce the desired new behaviors.
8. ***Monitor and assess progress.*** In brief, this involves comparing the company's progress with where it should be.

Using Organizational Development

Beyond this process, there are many other ways to reduce resistance. Among the many suggestions here are that managers impose rewards or sanctions that guide employee behaviors, explain why the change is needed, negotiate with employees, give inspirational speeches, or ask employees to help design the change.[189]

organizational development
A special approach to organizational change in which employees themselves formulate and implement the change that's required.

Organizational development (OD) taps into the latter. **Organizational development** is a change process through which employees formulate the change that's required and implement it, often with the assistance of trained consultants. OD has several distinguishing characteristics:

1. It usually involves *action research*, which means collecting data about a group, department, or organization, and feeding the information back to the employees so they can analyze it and develop hypotheses about what the problems might be.
2. It applies behavioral science knowledge to improve the organization's effectiveness.
3. It changes the organization in a particular direction—toward empowerment, improved problem solving, responsiveness, quality of work, and effectiveness.

For example, according to experts French and Bell, one OD method, *team-building meetings*, begins with the consultant interviewing each of the group members and the leader before the meeting.[190] They are asked what their problems are, how they think the group functions, and what obstacles are keeping the group from performing better. The consultant then categorizes the interview data into themes (such as "inadequate communications") and presents the themes to the group at the start of the meeting. The group ranks the themes in terms of importance, and the most important ones become the agenda for the meeting. The group then explores and discusses the issues, examines the underlying causes of the problems, and begins devising solutions.

Survey research is another of many OD options (see Table 8-2). It requires having employees, usually throughout the organization, complete attitude surveys. The facilitator then uses those data as a basis for problem analysis and action planning.

TABLE 8-2 Categories of OD Interventions

Human Process	Human Resource Management
T-groups	Goal setting
Process consultation	Performance appraisal
Third-party intervention	Reward systems
Team building	Career planning and development
Organizational confrontation meeting	Managing workforce diversity
Survey research	Employee wellness
Technostructural	**Strategic**
Formal structural change	Integrated strategic management
Differentiation and integration	Culture change
Cooperative union–management projects	Strategic change
Quality circles	Self-designing organizations
Total quality management	
Work design	

Surveys are a convenient way to unfreeze a company's management and employees. They provide a comparative, graphic illustration of the fact that the organization does have problems to solve.

AI Change Programs

Employers increasingly use artificial intelligence (AI) initiatives to improve their operations. For example, they use new AI systems to identify what employees or customers may leave and how to keep them, and what loans to approve.[191]

The problem is that there's a big human and cultural element to implementing AI programs. For example, employees have to learn how to (and be willing to) move from (1) depending on their own experience-based decisions (for instance, about bank loans) to (2) relying on AI algorithms. It also requires collaboration, because AI applications tend to be multidepartment efforts. Employers therefore best implement AI with the support of an organizational change effort. Unfortunately, most employers (92% by one estimate) aren't doing enough to ensure successful AI implementations.

Successful AI installation/change efforts have several things in common. There should be a shared *vision* of why the AI system is required. Sources of potential *resistance*—such as current customer relationship managers who view customer retention AI tools as threatening—need to be brought on board. (One company accomplished this by dramatically showing how AI was required for the firm's survival.)

LEARNING OBJECTIVE 8-7

Explain why a controlled study may be superior for evaluating the training program's effects.

Evaluating the Training Effort

Two experts contend that after spending $560 billion on training in one recent year, employers are getting a poor return on their investment because it "doesn't lead to better organizational performance. . . ."[192] Particularly with today's emphasis on measuring results, the manager should therefore evaluate the training program.

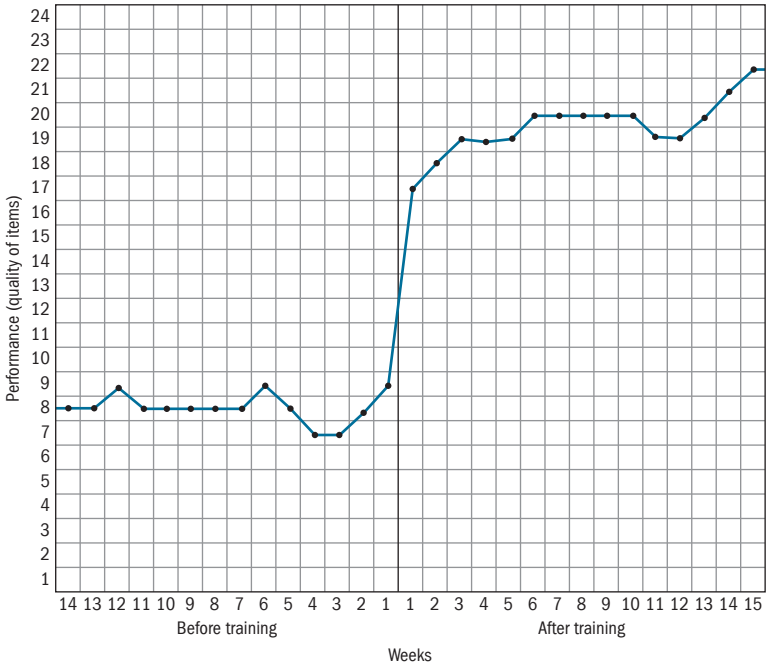
There are several things you can measure: participants' *reactions* to the program, what (if anything) the trainees *learned* from the program, and to what extent their on-the-job *behavior* or *results* changed as a result of the program. In one older survey of about 500 U.S. organizations, 77% evaluated their training programs by eliciting reactions, 36% evaluated learning, and about 10% to 15% assessed the program's behavior and/or results; recent evidence suggests these figures probably haven't changed much.[193]

There are two basic issues to address when evaluating training programs. One is the design of the evaluation study and, in particular, whether to use controlled experimentation. The second is, "What should we measure?"

Designing the Study

In deciding how to design the evaluation study, the basic concern is this: How can we be sure that the training (rather than, say, a companywide wage increase) caused the results that we're seeing? The *time series design* is one option. Here, as in Figure 8-3,

FIGURE 8-3 Using a Time Series Graph to Assess a Training Program's Effects



you take a series of performance measures before and after the training program. This can provide some insight into the program's effectiveness.[194] However, you can't be absolutely sure that the training (rather than, say, the raise) caused any change.

controlled experimentation
Formal methods for testing the effectiveness of a training program, preferably with before-and-after tests and a control group.

Controlled experimentation is therefore the gold standard. A controlled experiment uses a training group and a control group that receives no training. Data (for instance, on quantity of sales or quality of service) are obtained both before and after one group is exposed to training and before and after a corresponding period in the control group. This makes it easier to determine the extent to which any change in the training group's performance resulted from the training, rather than from some organizationwide change like a raise in pay. (The pay raise should have affected employees in both groups.)[195]

Training Effects to Measure

The widely used Kirkpatrick Model of training evaluation (named for its developer) lists four training effects employers can measure:[196]

1. ***Reaction.*** Evaluate trainees' reactions to the program. Did they like the program? Did they think it worthwhile?
2. ***Learning.*** Test whether they learned the principles, skills, and facts they were supposed to learn.
3. ***Behavior.*** Ask whether the trainees' on-the-job behavior changed because of the training program. For example, are employees in the store's complaint department more courteous toward disgruntled customers?
4. ***Results.*** Most important, ask, "What results did we achieve, in terms of the training objectives previously set?" For example, did the number of customer complaints diminish? Reactions, learning, and behavior are important. But if the training program doesn't produce measurable performance-related results, then it probably hasn't achieved its goals.[197]

Evaluating each of these is straightforward. Figure 8-4 presents one page from a sample evaluation questionnaire for assessing *reactions*. Or, you might assess trainees' *learning* by testing their new knowledge. For *behavioral change,* perhaps assess the effectiveness of a supervisory performance appraisal training program by asking that person's subordinates, "Did your supervisor provide you with examples of good and bad performance when he or she appraised your performance most recently?" Directly assess a training program's *results* by measuring, say, the percentage of phone caller questions that call center trainees subsequently answered correctly. A careful comparison of the training program's costs and benefits can enable the human resource team to compute the program's return on investment. Online calculators are available to facilitate such analyses.[198]

A program at MGM Resorts illustrates training evaluation.[199] In the hospitality industry, how likely guests are to return is a crucial metric. MGM measures it by "Net Promoter Scores" (NPS). With MGM's NPS scores not up to par, its training team concluded "guest facing" employees weren't sufficiently engaged. It created an Essentials of Hotel Management Program for front desk and assistant managers. The program emphasized skills like collaboration and communications. At the end of the approximately 1-year program, NPS scores had risen about 2% (which is considered a notable accomplishment).[200]

INSTRUCTOR HANDOUTS — *United States Office of Personnel Management*

TRAINING EVALUATION FORM

TITLE OF COURSE: "Work and Family Issues — A Module for Supervisors and Managers"
NAME OF INSTRUCTOR:
DATE OF TRAINING
Started:_____
Ended:_____

NAME: (Optional)	**POSITION TITLE/GRADE:**

AGENCY:	**OFFICE PHONE:** (Optional)	**OFFICE ADDRESS:** (Optional)

Rate Your Knowledge and Skill Level
(Circle your rating)

Before this course Low ----------High
1 2 3 4 5

After this course Low ----------High
1 2 3 4 5

Overall, how would you rate this course?

__ Excellent __Very Good __ Good

__ Fair __ Poor

EVALUATION OF COURSE
(Check appropriate box)

ITEMS OF EVALUATION How did the course sharpen your knowledge or skills in:	Excellent	Very Good	Good	Fair	Poor	Not Applicable
1. What work and family programs are	°	°	°	°	°	°
2. Who uses work and family programs	°	°	°	°	°	°
3. How to recognize/solve work/family issues	°	°	°	°	°	°
4. Helping you take practical steps on the job	°	°	°	°	°	°

RATING OF INSTRUCTOR

1. Presentation, organization, delivery	°	°	°	°	°	°
2. Knowledge and command of the subject	°	°	°	°	°	°
3. Use of audio-visuals or other training aids	°	°	°	°	°	°
4. Stimulation of an open exchange of ideas, participation, & group interaction	°	°	°	°	°	°

STRONG POINTS OF THE COURSE
°
°
°

WEAK POINTS OF THE COURSE
°
°
°

ADDITIONAL DATA YOU WOULD LIKE TO HAVE COVERED IN COURSE
°
°
°

ADDITIONAL COMMENTS/OR RECOMMENDATIONS

FIGURE 8-4 A Training Evaluation Form
Source: From Instructor Handouts: Training Evaluation Form, United States Office of Personnel Management.

Chapter Review

Chapter Section Summaries

8-1. Getting your new employee up to speed begins with **orienting and training** him or her. Employee orientation means providing new employees with the information they need to function, and helping them start being emotionally attached to the firm.

8-2. There is more to orienting employees than introducing them to their coworkers. Even without a company-wide program like Toyota's, use the onboarding opportunity to begin instilling in the new employee the company values and traditions in which you expect the person to become **engaged.**

8-3. We used the acronym **ADDIE** to outline the **training process:** analyze, develop, design, implement, and evaluate. Before training employees, it's necessary to analyze their training needs and design the training program. In training new employees, employers use task analysis—basically, a detailed study of the job—to determine what skills the job requires. For current employees, performance analysis is required, specifically to verify that there is performance efficiency and to determine if training is the solution. Distinguishing between can't-do and won't-do problems is the main issue here. Once you understand the issues, you can design a training program, which means identifying specific training objectives, clarifying a training budget, and then actually designing the program in terms of the actual content.

8-4. With that in place, you can turn to **implementing the training program.** Specific training methods include on-the-job training, apprenticeship training, informal learning, job instruction training, lectures, programmed learning, audiovisual-based training, vestibule training, videoconferencing, electronic performance support systems, and computer-based training. Frequently, programs are Internet-based, with employees accessing packaged online programs, backed up by learning management systems, through their company's learning portals. Employers also increasingly use mobile learning, for instance, delivering short courses and explanations to employees' smart phones. Lifelong learning can help ensure employees have the basic educational backgrounds they need to succeed on their jobs. Diversity training aims to create better cross-cultural sensitivity with the goal of fostering more harmonious working relationships.

8-5. Most training methods are useful for all employees, but some are particularly appropriate for **management development programs.** Like all employees, new managers often get on-the-job training, for instance, via job rotation and coaching. In addition, it's usual to supply various off-the-job training and development opportunities—for instance, using the case study method, management games, outside seminars, university-related programs, corporate universities, executive coaches, and (for human resource managers) the SHRM learning system.

8-6. When facing challenges, managers have to execute **organizational change programs.** These may aim at changing the company's strategy, culture, structure, technologies, or the attitudes and skills of the employees. Often, the trickiest part of organizational change is overcoming employees' resistance to it. With that in mind, steps in an effective organizational change program include establishing a sense of urgency, mobilizing commitment, creating a guiding coalition, developing and communicating a shared vision, helping employees make the change, consolidating gains, reinforcing new ways of doing things, and monitoring and assessing progress. Organizational development involves action research, which means collecting data about a group and feeding the information back to the employees so they can analyze it and develop hypotheses about what the problems might be.

8-7. Whatever the training program, it's important to **evaluate the training effort.** You can measure reaction, learning, behavior, or results, ideally using a control group that is not exposed to training, in parallel with the group that you're training.

Discussion Questions

8-1. "A well-thought-out orientation program is essential for all new employees, whether they have experience or not." Explain why you agree or disagree with this statement.

8-2. Explain how you would apply our "motivation points" in developing a lecture, say, on orientation and training.

8-3. What are some typical on-the-job training techniques? What do you think are some of the main drawbacks of relying on informal on-the-job training? What are some advantages to using cloud-based training?

8-4. Describe the pros and cons of five management development methods.

8-5. Do you think job rotation is a good method to use for developing management trainees? Why or why not?

8-6. What is organizational development, and how does it differ from traditional approaches to organizational change?

8-7. List and briefly explain each of the steps in the training process.

Individual and Group Activities

8-8. You're the supervisor of a group of employees whose task is to assemble disk drives that go into computers. You find that quality is not what it should be and that many of your group's devices have to be brought back and reworked. Your boss says, "You'd better start doing a better job of training your workers."

a. What are some of the staffing factors that could be contributing to this problem?

b. Explain how you would go about assessing whether it is in fact a training problem.

8-9. Choose a task with which you are familiar—mowing the lawn, making a salad, or studying for a test—and develop a job instruction sheet for it.

8-10. Working individually or in groups, develop a short, programmed learning program on the subject "Guidelines for Giving a More Effective Lecture."

8-11. Find three or four actual examples of employers using social media for training purposes. At what levels of managers are the offerings aimed? What seem to be the most popular types of programs? Why do you think that's the case?

8-12. Working individually or in groups, develop several specific examples to illustrate how a professor teaching human resource management could use at least four of the techniques described in this chapter in teaching his or her HR course.

8-13. Working individually or in groups, develop an orientation program for high school graduates entering your university as freshmen.

8-14. The HRCI *Exam Content Outline* website https://www.hrci.org/docs/default-source/web-files/phr-exam-content-outline.pdf?sfvrsn=13c44f61_28 lists the knowledge someone studying for the HRCI PHR certification exam needs to have in each area of human resource management (such as in Business Management, and in Talent Planning and Acquisition).[201] In groups of several students, do four things: (1) review the *Exam Content Outline* on that website; (2) identify the material in this chapter that relates to the Exam Content Outline's required "Knowledge Of" lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.

8-15. In the early 2000s, no training task in Afghanistan was more pressing than creating the country's new army. These were the people who were to help the coalition bring security to Afghanistan. However, many new soldiers and even officers had no experience. There were language barriers between trainers and trainees. And some trainees found themselves quickly under fire from insurgents when they went as trainees out into the field. Consider what you learned about training from this chapter. Then list the five most important things you would tell the U.S. officer in charge of training to keep in mind as that person designs the training program.

Experiential Exercise

Flying the Friendlier Skies

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Purpose: The purpose of this exercise is to give you practice in developing a training program for the job of airline reservation clerk for a major airline.

Required Understanding: You should be fully acquainted with the material in this chapter and should read the following description of an airline reservation clerk's duties:

> Customers contact our airline reservation clerks to obtain flight schedules, prices, and itineraries. The reservation clerks look up the requested information on our airline's online flight schedule systems, which are updated continuously. The reservation clerk must deal courteously and expeditiously with the customer, and be able to quickly find alternative flight arrangements in order to provide the customer with the itinerary that fits his or her needs. Alternative flights and prices must be found quickly, so that the customer is not kept waiting, and so that our reservations operations group maintains its efficiency standards. It is often necessary to look under various routings because there may be a dozen or more alternative routes between the customer's starting point and destination.

You may assume that we just hired 30 new clerks, and that you must create a 3-day training program.

How to Set Up the Exercise/Instructions: Divide the class into teams of five or six students.

Airline reservation clerks obviously need numerous skills to perform their jobs. This airline has asked you to quickly design the outline of a training program for its new reservation clerks.

8-16. You may want to start by listing the job's main duties and by reviewing any work you may have done for the exercise at the end of Chapter 6.

8-17. In any case, please produce the requested outline, making sure to be very specific about what you want to teach the new clerks, and what methods and aids you suggest using to train them.

Application Case

Reinventing the Wheel at Apex Door Company

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Jim Delaney, president of Apex Door, has a problem. No matter how often he tells his employees how to do their jobs, they invariably "decide to do it their way," as he puts it, and arguments ensue between Jim, the employee, and the employee's supervisor. One example is the door-design department, where the designers are expected to work with the architects to design doors that meet the specifications. While it's not "rocket science," as Jim puts it, the designers invariably make mistakes—such as designing in too much steel, a problem that can cost Apex tens of thousands of wasted dollars, once you consider the number of doors in, say, a 30-story office tower.

The order processing department is another example. Jim has a very specific and detailed way he wants the order written up, but most of the order clerks don't understand how to use the multipage order form. They simply improvise when it comes to a detailed question such as whether to classify the customer as "industrial" or "commercial."

The current training process is as follows. None of the jobs has a training manual per se, although several have somewhat out-of-date job descriptions. The training for new people is all on the job. Usually, the person leaving the company trains the new person during the 1- or 2-week overlap period, but if there's no overlap, the new person is trained as well as possible by other employees who have filled in occasionally on the job in the past. The training is the same throughout the company—for machinists, secretaries, assemblers, engineers, and accounting clerks, for example.

Questions

8-18. What do you think of Apex's training process? Could it help to explain why employees "do things their way"? If so, how?

8-19. What role should job descriptions play in training at Apex?

8-20. Explain in detail what you would do to improve the training process at Apex. Make sure to provide specific suggestions, please.

Continuing Case

Carter Cleaning Company

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The New Training Program

The Carter Cleaning Centers currently have no formal orientation or training policies or procedures, and Jennifer believes this is one reason why the standards to which she and her father would like employees to adhere to are generally not followed.

The Carters would prefer that certain practices and procedures be used in dealing with the customers at the front counters. For example, all customers should be greeted with what Jack refers to as a "big hello." Garments they drop off should immediately be inspected for any damage or unusual stains so these can be brought to the customer's attention, lest the customer later return to pick up the garment and erroneously blame the store. The garments are then supposed to be placed together in a nylon sack immediately to separate them from other customers' garments. The ticket also has to be carefully

written, with the customer's name and telephone number and the date clearly noted on all copies. The counter person is also supposed to take the opportunity to try to sell the customer additional services such as waterproofing, or simply notify the customer that "Now that people are doing their spring cleaning, we're having a special on drapery cleaning all this month." Finally, as the customer leaves, the counter person is supposed to make a courteous comment like "Have a nice day." Each of the other jobs in the stores—pressing, cleaning and spotting, and so forth—similarly contain certain steps, procedures, and, most important, standards the Carters would prefer to see upheld.

The company has had problems, Jennifer feels, because of a lack of adequate employee training and orientation. For example, two new employees became very upset last month when they discovered that they were not paid at the end of the week, on Friday, but instead were paid (as are all Carter employees) on the following Tuesday. The Carters use the extra 2 days in part to give them time to obtain everyone's hours and compute their pay. The other reason they do it, according to Jack, is that "frankly, when we stay a few days behind in paying employees it helps to ensure that they at least give us a few days' notice before quitting on us. While we are certainly obligated to pay them anything they earn, we find that psychologically they seem to be less likely to just walk out on us Friday evening and not show up Monday morning if they still haven't gotten their pay from the previous week. This way they at least give us a few days' notice so we can find a replacement."

There are other matters that could be covered during orientation and training, says Jennifer. These include company policy regarding paid holidays, lateness and absences, health benefits (there are none, other than workers' compensation), substance abuse, eating or smoking on the job (both forbidden), and general matters like the maintenance of a clean and safe work area, personal appearance and cleanliness, time sheets, personal telephone calls, and personal e-mail.

Jennifer believes that implementing orientation and training programs would help to ensure that employees know how to do their jobs the right way. And she and her father further believe that it is only when employees understand the right way to do their jobs that there is any hope their jobs will be accomplished the way the Carters want them to be accomplished.

Questions

8-21. Specifically, what should the Carters cover in their new employee orientation program, and how should they convey this information? Although some employees interact directly with customers, others, such as pressers, do not, and may not have bilingual skills. This may necessitate translating training materials. How should Jennifer address this?

8-22. In the HR management course Jennifer took, the book suggested using a job instruction sheet to identify tasks performed by an employee. Should the Carter Cleaning Centers use a form like this for the counter person's job? If so, what should the form look like, say, for a counter person?

8-23. Which specific training techniques should Jennifer use to train her pressers, her cleaner/spotters, her managers, and her counter people? Why should these training techniques be used?

Translating Strategy into HR Policies and Practices Case*,§

**The overall strategy map on the inside back cover of this text outlines the relationships involved.*

Improving Performance at the Hotel Paris

The New Training Program

The Hotel Paris's competitive strategy is "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy, by eliciting the required employee behaviors and competencies.

As she reviewed her company's training processes, Lisa had many reasons to be concerned. For one thing, the Hotel Paris relied almost exclusively on informal on-the-job training. New security guards attended a 1-week program offered by a law enforcement agency, but all other new hires, from assistant manager to housekeeping crew, learned the rudiments of their jobs from their colleagues and their supervisors, on the job. Lisa noted that the drawbacks of this informality were evident when she compared the Hotel Paris's performance on various training metrics with those of other hotels and service firms. For example, in terms of number of hours training per employee per year, number of hours training for new employees, cost per trainee hour, and percent of payroll spent on training, the Hotel Paris was far from the norm when benchmarked against similar firms.

As Lisa and the CFO reviewed measures of the Hotel Paris's current training efforts, it was clear that (when compared to similar companies) some changes were in order. Most other service companies provided at least 40 hours of training per employee per year, while the Hotel Paris offered, on average, no more than 5 or 6. Similar firms offered at least 40 hours of training per *new* employee, while the Hotel Paris offered, at most, 10. Even the apparently "good" metrics comparisons simply masked poor results. For example, whereas most service firms spend about 8% of their payrolls on training, the Hotel Paris spent less than 1%. The problem, of course, was that the Hotel Paris's training wasn't more efficient, it was simply nonexistent.

Given this and the commonsense links between (1) employee training and (2) employee performance, the CFO gave his go-ahead for Lisa and her team to design a comprehensive package of training programs for all Hotel Paris employees. They retained a training supplier to design a 1-day training program composed of lectures and audiovisual material for all new employees. This program covered the Hotel Paris's history, its competitive strategy, and its critical employee capabilities and behaviors, including the need to be customer oriented. With a combination of lectures and video examples of correct and incorrect behaviors, the behavior-modeling part of this program aimed to cultivate in new employees the company's essential values, including, "we endeavor to do everything we can to make the guests' stay 100% pleasant."

The team developed separate training programs for each of the hotel's other individual job categories. For example, it retained a special vendor to create computer-based training programs, complete with interactive scenarios, for both the front-desk clerks and telephone operators. As with all the new training programs, they had these translated into the languages of the countries in which the Hotel Paris did business. The team chose to stay with on-the-job training for both the housekeeping and valet/door person job categories, but formalized this training with special handbooks for each job category's supervisory staff. For assistant managers, the team developed a new videoconference-based online training and development program. In this way, the new

managers could interact with other assistant managers around the chain, even as they were learning the basics of their new jobs. Lisa and the CFO were not at all surprised to find that within a year of instituting the new training programs, scores on numerous employee capabilities and behavior metrics (including speed of check-in/out, percent of employees scoring at least 90% on Hotel Paris's values quiz, and percent room cleaning infractions) improved markedly. They knew from previous analyses that these improvements would, in turn, drive improvements in customer and organizational outcomes, and strategic performance.

Questions

8-24. Based on what you read in this chapter, what would you have suggested Lisa and her team do first with respect to training, particularly in terms of the company's strategy? Why?

8-25. Have Lisa and the CFO sufficiently investigated whether training is really called for? Why? What would you suggest?

8-26. Based on what you read in this Dessler, *Human Resource Management*, chapter and what you may access via the web, develop a detailed training program for one of these hotel positions: security guard, housekeeper, or door person.

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Writing Assignments

8-27. John Santos is an undergraduate business student majoring in accounting. He just failed the first accounting course, Accounting 101. He is understandably upset. How would you use performance analysis to identify what, if any, are John's training needs?

8-28. Knowing that you are taking an HR management course, a friend asks you this: I just hired a nanny for my child, and I want to make sure she knows what to do; in outline form, what should I cover in the training program I give her?

Key Terms

employee orientation, 229
training, 231
negligent training, 231
competency model, 232
task analysis, 233
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the cloud, 237
on-the-job training (OJT), 238
shadow learner, 239
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Endnotes

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9 Performance Management and Appraisal

WHERE ARE WE NOW . . .

Chapters 6–8 explained selecting, training, and developing employees. After employees have been on the job for some time, you should appraise their performance. The purpose of this chapter is to show you how to do that. The main topics we cover include the **Basics of Performance Appraisal; Traditional Tools for Appraising Performance; Dealing with Rater Error Appraisal Problems; Managing the Appraisal Interview; Employee Engagement Guide for Managers;** and **Performance Management**. Career planning is a logical consequence of appraisal: We'll turn to career planning in Chapter 10.

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

9-1 **Describe** the performance appraisal process.

9-2 **Discuss** the pros and cons of at least eight traditional performance appraisal methods.

9-3 **Give examples** of how to deal with potential appraisal error problems.

9-4 **List** steps to take in the appraisal interview.

9-5 **Explain** key points in how to use the appraisal interview to boost employee engagement.

9-6 **Explain** how you would take a performance management approach to appraisal.

While its competitors were shifting assets to renewable energy, ExxonMobil was doing the opposite. For example, just before the pandemic, their strategy called for spending $230 billion to pump an extra million barrels of oil and gas a day by 2025.[1] In the long run that may turn out to be a good decision. But in the short run, demand dropped, costs rose, and for the first time in decades they reported annual losses. That had big consequences for ExxonMobil's staffing levels, and for how it appraised employees. We'll see what they did.

LEARNING OBJECTIVE 9-1

Describe the performance appraisal process.

Basics of Performance Appraisal

Few things supervisors do are fraught with more peril than appraising subordinates' performance. Employees tend to be overly optimistic about their ratings. And they know their raises, careers, and peace of mind may hinge on how you rate them. As if that's not enough, few appraisal processes are as fair as employers think they are. Many obvious and not-so-obvious problems (such as the tendency to rate everyone "average") distort the process.[2] However, the perils notwithstanding, performance appraisal plays a big role in managing people.[3]

performance appraisal
Evaluating an employee's current and/or past performance relative to his or her performance standards.

performance appraisal process
A three-step appraisal process involving (1) setting work standards, (2) assessing the employee's actual performance relative to those standards, and (3) providing feedback to the employee with the aim of helping him or her to eliminate performance deficiencies or to continue to perform above par.

The Performance Appraisal Process

Performance appraisal means evaluating an employee's current and/or past performance relative to his or her performance standards. You may equate appraisal forms like Figure 9-1 with "performance appraisal," but appraisal involves more than forms. It also requires setting performance standards. And it assumes that the employee receives the feedback required to eliminate performance deficiencies. Stripped to its essentials, performance appraisal always involves the three-step **performance appraisal process**: (1) setting work standards; (2) assessing the employee's actual performance relative to those standards (this often involves a rating form); and (3) providing feedback to the employee with the aim of helping him or her eliminate performance deficiencies or to continue to perform above par.

Effective appraisals actually begin before the actual appraisal, with the manager defining the employee's job and performance criteria. *Defining the job* means making sure that you and your subordinate agree on his or her duties and job standards and on the appraisal method you will use.

FIGURE 9-1 Sample Faculty Evaluation Survey
Source: Copyright Gary Dessler, PhD.

Instructions: Thoughtful evaluations help the faculty member better understand and improve their teaching practices. For each of the following eight items, please assign a score, giving your highest score of 7 for Outstanding, a score of 4 for Average, your lowest score of 1 for Needs Improvement, and an NA if the question is not applicable:

Evaluation Items

____ 1. The instructor was prepared for his/her lectures.
____ 2. The course was consistent with the course objectives.
____ 3. The instructor was fair in how he/she graded me.
____ 4. The instructor carefully planned and organized this course.
____ 5. The instructor was available during his/her posted office hours.
____ 6. The instructor responded to online inquiries in a timely manner.
____ 7. In terms of knowledge and/or experience, the instructor was competent to teach this course.
____ 8. Overall how would you rate this course?

Why Appraise Performance?

There are five reasons to appraise subordinates' performance.

- First we'll see that although many employers are replacing or complementing annual reviews with frequent, informal discussions between managers and employees,[4] most employers still base pay, promotion, and retention decisions in large part on the employee's appraisal.
- Appraisals play a central role in the employer's *performance management* process. Performance management means continuously ensuring that each employee's performance is consistent with the company's overall goals.
- The appraisal lets the manager and subordinate develop plans for correcting deficiencies, and to reinforce strengths.
- Appraisals provide an opportunity to review the employee's career plans in light of his or her strengths and weaknesses. We address career planning in Chapter 10.
- Appraisals enable the supervisor to identify if there is a training need, and the training required.

Defining the Employee's Goals and Performance Standards

Performance appraisals compare "what should be" with "what is." Managers use one or more of three bases—*goals*, *job dimensions* or traits, and behaviors or *competencies*—to establish ahead of time what the person's performance standards should be.

First, the manager can assess to what extent the employee is attaining his or her *measurable goals*. Such goals should derive from the company's overall profitability, cost reduction, or efficiency goals. For example, a companywide goal of reducing costs by 10% should translate into goals for how each team and employee will contribute to cutting costs. (The accompanying Tools for Line Managers section explains how to set effective goals.)

A *second* basis upon which to appraise someone is with *basic job dimensions* or *traits* such as "communication" or "teamwork." Here, for instance, "good teamwork" is a standard for "what should be."

A third option is to appraise employees based *on their mastery of the competencies* (the skills, knowledge, and/or personal behaviors) the job requires. For example, we saw in Chapter 4 that BP's exploration division appraises employees' skills using a skills matrix (see Figure 4-11 in Chapter 4). This matrix shows the basic skills to be assessed (such as "technical expertise"). And, it shows the minimum level of each skill the job requires. Employees with the requisite level of each skill are qualified to fill the position.

Tools for Line Managers and Small Businesses: How to Set Effective Goals

Managers often say that effective goals are "SMART." They are *specific*, and clearly state the desired results. They are *measurable*, and answer the question, "How much?" They are *attainable*. They are *relevant*, and clearly reflect what the company wants to achieve. And they are *timely*, with deadlines and milestones.[5] Research provides insights into setting motivational goals.

Behavioral science research studies suggest four guidelines for setting performance goals:

1. Assign specific goals. Employees who receive specific goals usually perform better than those who do not. Don't just say, "do your best."
2. Assign measurable goals. Put goals in quantitative terms, and include target dates/deadlines. If measurable results will not be available, then "satisfactory completion"—such as "satisfactorily attended workshop"—is okay.
3. Assign challenging but doable goals. Goals should be challenging, but not so difficult that they appear unrealistic.
4. Encourage participation. Managers often face this question: Should I tell my employees what their goals are, or let them participate with me in setting their goals? The evidence suggests that participatively set goals do not consistently result in higher performance than assigned goals, nor do assigned goals consistently result in higher performance than participative ones. It is only when the participatively set goals are set higher than the assigned ones that the participatively set goals produce higher performance. Because it tends to be easier to set higher standards when your employees participate, participation tends to improve performance.[6]

The HR as a Profit Center discussion shows how one employer used goal-setting.

HR AS A PROFIT CENTER

Setting Performance Goals at Ball Corporation

Ball Corporation supplies metal packaging to customers such as food processors and paint manufacturers worldwide.[7] The management team at one Ball plant concluded that it could improve plant performance by instituting an improved process for setting

goals and for ensuring that the plant employees' behaviors were in synch with these goals.[8] The new program began by training plant leaders on how to improve performance, and on communicating daily performance goals. They in turn communicated and tracked daily goal attainment by distributing team scorecards to the plant's work teams. Plant employees received special coaching and training to ensure they had the skills required for achieving the goals. Within 12 months the plant increased production by 84 million cans, reduced customer complaints by 50%, and obtained a return on investment of more than $3 million.[9] ■

Who Should Do the Appraising?

Appraisal by the immediate supervisor is still the heart of most appraisals. This makes sense. The supervisor is usually in the best position to observe and evaluate the subordinate's performance and is responsible for that person's performance.

The human resources department is advisory. Generally, they advise on what appraisal tool to use, but leave final procedural decisions to operating managers. The human resource team should also train supervisors to improve their appraisal skills, monitor the appraisal system's effectiveness, and ensure that it complies with EEO laws.

However relying only on supervisors' appraisals isn't advisable. For example, the supervisor may not appreciate how customers and colleagues see the employee's performance. There is also always a danger of bias.

Managers have several other options.

PEER APPRAISALS Peer appraisals—appraisals by one's peers—are popular. The American military requires generals and admirals to be evaluated by their peers (and subordinates).[10] Facebook has employees compile peer reviews.[11] Google employees receive annual feedback from their supervisor and their peers.[12] At one software firm, employees recognize each other with "wins" and "project completions" during monthly video meetings.[13]

Typically, an employee due for a peer appraisal chooses an appraisal chairperson. The latter (perhaps with the employee's input) then selects a supervisor and several peers to evaluate the employee's work.

Peer appraisals are useful. Peers see aspects of the person that the boss may never see. Knowing your colleagues will appraise you can also change behavior. In one study, instituting peer appraisals had "an immediate positive impact on [improving] perception of open communication, task motivation, social loafing, group viability, cohesion, and satisfaction."[14] Another study concluded that peer feedback could improve hospital-based physicians' performance.[15]

CROWD APPRAISALS Social media tools allow almost everyone in the company (the "crowd,") to continuously appraise their peers' work.[16] Employees use these tools to provide feedback and recognition. For example, Workhuman (www.workhuman.com) offers social recognition tools. These facilitate peer-to-peer recognition that "lets everyone feel seen, heard, and appreciated for who they are and the work they do."[17] Sites like these also usually facilitate sharing peer-to-peer rewards, from badges to show tickets.

VIRTUAL GAMES Many employers conduct peer appraisals by using virtual appraisal games. One company created a virtual game that helps employees evaluate and reward each other. Each employee has an avatar. They use these to give real-time feedback to each other, along with virtual gifts and points.[18]

RATING COMMITTEES A rating committee typically consists of the employee's immediate supervisor and three or four other supervisors.[19]

Using rating committees is useful. It helps cancel out problems such as individual raters' biases.[20] It can also help uncover different facets of an employee's performance.[21] Many employers obtain ratings from the supervisor, his or her

boss, and at least one other manager familiar with the employee's work. Others use "calibration committees." These are groups of managers who review and fine-tune the appraisal done by the supervisor. They ensure that the appraisal is in line with other departments' appraisals.[22] At a minimum, require that the supervisor's boss sign off on any appraisals the supervisor does.

SELF-RATINGS Some employers obtain employees' self-ratings, usually along with supervisors' ratings. The problem, of course, is that employees usually rate themselves higher than do their supervisors or peers.[23] One older study found that, when asked to rate their own job performances, 40% of employees in jobs of all types placed themselves in the top 10%, and virtually all remaining employees rated themselves in the top 50%; some believe incompetent performers aren't capable of objectively assessing themselves.[24] It's probably best to just ask subordinates to list their accomplishments for the period, before the manager does the appraisal.[25]

APPRAISAL BY SUBORDINATES Many employers have subordinates rate their managers, usually for developmental rather than for pay purposes. Googlers assess their managers twice a year, with items such as "my manager shows consideration for me as a person."[26]

Of course anonymity affects the feedback. Managers who receive feedback from subordinates who identify themselves view the upward feedback process more positively. However, subordinates who do identify themselves tend to give inflated ratings.[27] Furthermore, some upward appraisals may just measure likability. One study distinguished between what the researchers called "positive leader affect" and "negative leader affect."[28] Subordinates with positive leader affect responded positively to statements such as "I like my supervisor." Those with negative leader affect responded positively to statements such as "I dislike my supervisor." The study found a strong relationship between (1) liking one's supervisor and (2) rating the supervisor's effectiveness high.

However, the evidence suggests that upward feedback does improve managers' performance. One older study focused on 252 managers during five annual administrations of an upward feedback program. Managers who were initially rated poor or moderate "showed significant improvements in [their] upward feedback ratings over the five-year period."[29]

Of course, employees no longer need their employers help to appraise their boss—sites like Glassdoor, suggestionbox.com. and voicesifter.com let employees post anonymous comments.[30]

Many employers use rating committees to appraise employees.

Andrii Borodai/Alamy Stock Photo

360-DEGREE FEEDBACK With 360-degree feedback, the employer collects performance information all around an employee—from supervisors, subordinates, peers, and internal or external customers—generally for developmental rather than pay purposes.[31] The usual process is to have all raters complete online appraisal surveys. Computerized systems then compile this into individualized reports to ratees.

Results are mixed. An older study found that multisource feedback led to "generally small" improvements in subsequent ratings by supervisors, peers, and subordinates.[32] On the other hand, such feedback can wake someone up. One manager, surprised that peers called him "Attila the Hun," ratcheted down his disagreeable behavior.[33] In any case, make sure the feedback the person receives is productive, unbiased, and development-oriented.[34] And, collect multisource feedback by using an online system such as Sumtotal's 360 Degree Feedback.[35]

LEARNING OBJECTIVE 9-2

Discuss the pros and cons of at least eight traditional performance appraisal methods.

Traditional Tools for Appraising Performance

Many employers use online tools such as Oracle's Performance Management Cloud Service to automate the performance appraisal/management process. With their digital dashboards, these tools monitor, report, and correct performance deviations in real time. Yet many employers still use traditional performance appraisal tools like those described next; many then supplement such tools with continuous feedback, perhaps via mobile apps, and with frequent coaching.

graphic rating scale
A scale that lists a number of traits and a range of performance for each. The employee is then rated by identifying the score that best describes his or her level of performance for each trait.

Graphic Rating Scale Method

The **graphic rating scale** is the simplest and most popular method for appraising performance. You'll find several varieties. As in the one in Figure 9-2, the scale may list several *job dimensions or traits* (such as "communication" or "teamwork") and a range

	Unsatisfactory	Fair	Good	Superior	Outstanding
	Rarely meets expectations	Performance is usually barely acceptable	Consistently meets job expectations	Usually performs well above job expectations	Top 2% of employees I've supervised
Quality Accuracy, appearance, thoroughness					
Quantity Amount or volume of output					
Communication Clarity and openness					
Teamwork Cooperativeness, gets along with co-workers					
Required supervision Need for direction					

Direct supervisor reviewing: _____ Next-level approval: _____

Employee/Appraisee's comments and signature: _____

Date: _____

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FIGURE 9-2 Sample Graphic Performance Rating Form with Behavioral Examples

of performance values (from "below expectations" to "role model" or from "unsatisfactory" to "outstanding") for each trait. The supervisor rates each subordinate by circling or checking the score that best describes the subordinate's performance for each trait, and totals the ratings.

FIGURE 9-3 One Item from an Appraisal Form Assessing Employee Performance on Specific Job-Related Skills

Position: Pizza Chef			
Competency/Skill 1: Be able to maintain adequate inventory of pizza dough		Rating	
Each round pizza dough must be between 12 and 14 ounces each, kneaded at least 2 minutes before being placed in the temperature- and humidity-controlled cooler, and kept there for at least 5 hours prior to use. There should be enough, but no more, for each day's demand.	Needs improvement	Satisfactory	Excellent

A *competency- (or skill- or behavior-)* based graphic rating scale is another option.[36] Figure 9-3 shows a partial form for a pizza chef. This rating form assesses one of the person's competencies and skills. Here the employer wants to appraise a pizza chef's job-related skills, one of which is: "Be able to maintain adequate inventory of pizza dough." As another example, Section I of Figure 9-4 focuses on behavioral competencies. Here "Effectively leads and motivates nurses" is a required behavioral competency for a nurse supervisor. Some employers use competency-based self-appraisals, which the employee then discusses with his or her supervisor.[37]

Finally, the scale might rate (as in Section II of Figure 9-4) how well the employee did with respect to achieving specific profit, cost, or efficiency *goals*. "Nursing unit experienced zero patient medication errors in period" is one example.

Alternation Ranking Method

alternation ranking method
Ranking employees from best to worst on a particular trait, choosing highest, then lowest, until all are ranked.

Ranking employees from best to worst on a trait or traits is another option. Because it's usually easier to distinguish between the worst and best employees, an **alternation ranking method** is most popular. First, list all subordinates to be rated, and then cross out the names of any not known well enough to rank. Then, on a form like that in Figure 9-5, indicate the employee who is the highest on the performance dimension being measured and the one who is the lowest. Then choose the next highest and the next lowest, alternating between highest and lowest until all employees have been ranked.

Paired Comparison Method

paired comparison method
Ranking employees by making a chart of all possible pairs of the employees for each trait and indicating which is the better employee of the pair.

The **paired comparison method** makes the ranking method more precise. For every trait (quantity of work, quality of work, and so on), you compare every employee with every other employee. With, say, five employees to rate, you use a chart as in Figure 9-6 of all possible pairs of employees for each trait. Then choose who the better employee of the pair is. In Figure 9-6, Maria ranked highest (has the most + marks) for quality of work, whereas Art was ranked highest for creativity.

Forced Distribution Method

forced distribution method
Similar to grading on a curve; predetermined percentages of ratees are placed in various performance categories.

The **forced distribution method** is similar to grading on a curve. Here, the manager places predetermined percentages of ratees into performance categories. At Lending Tree, the top 15% ratees are "1's," the middle 75% are "2's," and the bottom 10% are "3's" and the "first to go." GE used top 20%, middle 70%, and bottom 10% for its managers, and most of the bottom 10% lost their jobs.[38] (GE no longer strictly adheres to its 20/70/10 split. Their new system is reportedly more informal and less stressful.)[39]

Section I: Competencies: Does this employee exhibit the core competencies the job requires?

Exhibits Leadership Competency

Effectively leads and motivates nurses: Builds a culture that is open and receptive to improved clinical care; sets clear goals for nurses; is supportive of nurses; motivates nurses to achieve their goals.

Generally exceeds expectations	Generally meets expectations	Generally fails to meet expectations
_____	_____	_____

Exhibits Technical Supervisory Competency

Effectively supervises nurses' technical activities: Exhibits the command of technical nursing knowledge and skills required to supervise nurses effectively, such as, ensuring that nurses accurately administer medications, treat patients, intervene effectively to patients' expressions of symptoms, and accurately carry out physicians' instructions.

Generally exceeds expectations	Generally meets expectations	Generally fails to meet expectations
_____	_____	_____

Exhibits Managerial Supervisory Competency

Effectively manages unit: Develops annual, monthly, weekly, and daily plans within context of hospital's plans; effectively organizes and assigns nurses' work; maintains required nursing staffing levels and trains nurses; effectively monitors and controls nursing unit performance using hospital-approved metrics.

Generally exceeds expectations	Generally meets expectations	Generally fails to meet expectations
_____	_____	_____

Exhibits Communications Competency

Effectively communicates: Actively listens to and understands what others say; effectively conveys facts and ideas in writing and orally.

Generally exceeds expectations	Generally meets expectations	Generally fails to meet expectations
_____	_____	_____

Exhibits Decision-Making Competency

Effectively recognizes and solves problems and makes decisions: uses data to analyze alternatives and support conclusions; able to solve problems even of moderate to high complexity.

Generally exceeds expectations	Generally meets expectations	Generally fails to meet expectations
_____	_____	_____

Section II: Goals: Did this employee achieve his or her goals for the period you are appraising?

Primary goals employee was to achieve for this period *(Note: list specific goals)*	Rating 5 Exceeded goal 3 Met goal 1 Did not achieve goal	Explanations and/or examples
Goal 1 Zero patient medication errors	5 4 ③ 2 1	Nursing unit experienced zero patient medication errors.
Goal 2	5 4 3 2 1	
Goal 3	5 4 3 2 1	
Goal 4	5 4 3 2 1	
Goal 5	5 4 3 2 1	

Employee name and signature	Person doing appraisal	Date of appraisal

Source: Copyright Gary Dessler, PhD.

FIGURE 9-4 Pearson Pennsylvania Hospital Competencies and Goals-Based Appraisal Form for a Nurse-Supervisor

FIGURE 9-5 Alternation Ranking Method

ALTERNATION RANKING SCALE

Trait: _____

For the trait you are measuring, list all the employees you want to rank. Put the highest-ranking employee's name on line 1. Put the lowest-ranking employee's name on line 20. Then list the next highest ranking on line 2, the next lowest ranking on line 19, and so on. Continue until all names are on the scale.

Highest-ranking employee

1.	_____	11.	_____
2.	_____	12.	_____
3.	_____	13.	_____
4.	_____	14.	_____
5.	_____	15.	_____
6.	_____	16.	_____
7.	_____	17.	_____
8.	_____	18.	_____
9.	_____	19.	_____
10.	_____	20.	_____

Lowest-ranking employee

Forced distribution's big advantage is in preventing supervisors from rating all or most employees "satisfactory" or "high." But as students know, with this method you're either in the top 5% or 10% (and get that "A"), or you're not. Forced distribution systems may also increase discriminatory adverse impact.[40]

Forced distribution motivates effort and perhaps performance, but leaves many employees feeling slightly abused.[41] Some writers call it "Rank and Yank."[42] Furthermore, distinguishing between top and bottom performers is usually not even the problem: "The challenge is to differentiate meaningfully between the other 80%."[43] And in one study, relative appraisals had an unexpected side effect.[44] People appraised relative to their peers were more likely to assume that their peers were using unethical means to look better, and therefore to engage in unethical behavior themselves.

FIGURE 9-6 Paired Comparison Method

Note: + means "better than." − means "worse than." For each chart, add up the number of +'s in each column to get the highest-ranked employee.

FOR THE TRAIT "QUALITY OF WORK"

	Employee rated:				
As Compared to:	A Art	B Maria	C Mei	D Diane	E José
A Art		+	+	−	−
B Maria	−		−	−	−
C Mei	−	+		+	−
D Diane	+	+	−		+
E José	+	+	+	−	

Maria ranks highest here

FOR THE TRAIT "CREATIVITY"

	Employee rated:				
As Compared to:	A Art	B Maria	C Mei	D Diane	E José
A Art		−	−	−	−
B Maria	+		−	+	+
C Mei	+	+		−	+
D Diane	+	−	+		−
E José	+	−	−	+	

Art ranks highest here

One survey found that 77% of employers were at least "somewhat satisfied" with forced ranking, while the remaining 23% were dissatisfied. The biggest complaint: 44% said it damages morale.[45] In any case, a committee should review any employee's low ranking. For many years, Microsoft graded employees against each other in what employees called the "stack."[46] It now uses frequent qualitative appraisals.

The Strategic Context: ExxonMobil's Appraisal Process

ExxonMobil's strategy of doubling down on oil and gas backfired during the pandemic.[47] Overstaffing and losses were dragging it down. That impacted its employee appraisal policies.

To support a new downsizing strategy, the company modified its employee performance ranking system. ExxonMobil raised the percentage of employees who had to receive "significant improvement required" ratings from at least 3% of appraisees to 8% to 10%. These employees then had a choice: resign with three months' pay, or stay for three months to see if they could improve enough to avoid being fired.

Critical Incident Method

critical incident method
Keeping a record of uncommonly good or undesirable examples of an employee's work-related behavior and reviewing it with the employee at predetermined times.

With the **critical incident method**, the supervisor keeps a log of positive and negative examples (critical incidents) of a subordinate's work-related behaviors. Every six months or so, supervisor and subordinate meet to discuss the latter's performance, using the incidents as examples. One study involved 112 first-line supervisors. The conclusion of this and similar studies is that compiling critical incidents as they occur anchors the eventual appraisal in reality and thus improves appraisal outcomes.[48]

It's thus advisable to keep a diary of such incidents.[49] Doing so makes the supervisor think about the subordinate's appraisal all during the year (so the rating doesn't just reflect the employee's most recent performance). The downside is that the incidents themselves don't produce relative ratings for pay raise purposes.

In Table 9-1, one of the assistant plant manager's duties was to supervise procurement and minimize inventory storage costs. The critical incident log shows that inventory storage costs rose actually 15%; this provides an example of what performance to improve.

TABLE 9-1 Examples of Critical Incidents for Assistant Plant Manager

Continuing Duties	Targets	Critical Incidents
Schedule production for plant	90% utilization of personnel and machinery in plant; orders delivered on time	Instituted new production scheduling system; decreased late orders by 10% last month; increased machine utilization in plant by 20% last month
Supervise procurement of raw materials and inventory control	Minimize inventory costs while keeping adequate supplies on hand	Let inventory storage costs rise 15% last month; overordered parts "A" and "B" by 20%; underordered part "C" by 30%
Supervise machinery maintenance	No shutdowns due to faulty machinery	Instituted new preventative maintenance system for plant; prevented a machine breakdown by discovering faulty part

Narrative Forms

All or part of the written appraisal may be in narrative form, as in Figure 9-7. Here the person's supervisor assesses the employee's performance on each appraisal dimension such as Job Knowledge, using a short narrative example. The supervisor's narrative assessment helps the employee understand where his or her performance was good or bad, and how to improve that performance.

Graphic rating appraisals may seem more quantifiable and therefore more "accurate" than narratives. However in one study, qualitative narrative assessments were actually as or more predictive of employee outcomes such as promotions and raises.[50]

FIGURE 9-7 Sample Narrative Appraisal Form

Source: Copyright Gary Dessler, PhD.

Supervisory Appraisal of Employee: Narrative Form		
Employee's Name	Department	Present Position
Appraisal Date	Supervisor Name/Title	Performance Period

Supervisor-Appraiser: First, briefly describe results for each of this employee's goals this year. Then, preferably using specific examples, describe the level of the employee's job knowledge, skills, and abilities. Then, jointly set goals for the coming period and describe required employee training and development in each area. Finally, describe your overall assessment of this employee's work this period.

Appraisal Criteria	Narrative Appraisal	Goals, Training, & Development
Job-Related Goals 1. _____ 2. _____ 3. _____	_____ _____ _____	_____ _____ _____
Employee Job Knowledge	Sam's knowledge of chemical engineering is exceptional; her colleagues use her as a resource when they have questions.	Help prepare her for more responsibility by enrolling in a chemical engineering masters degree program.
Employee Job Skills		
Employee Job Abilities		
Overall Assessment		

Behaviorally Anchored Rating Scales

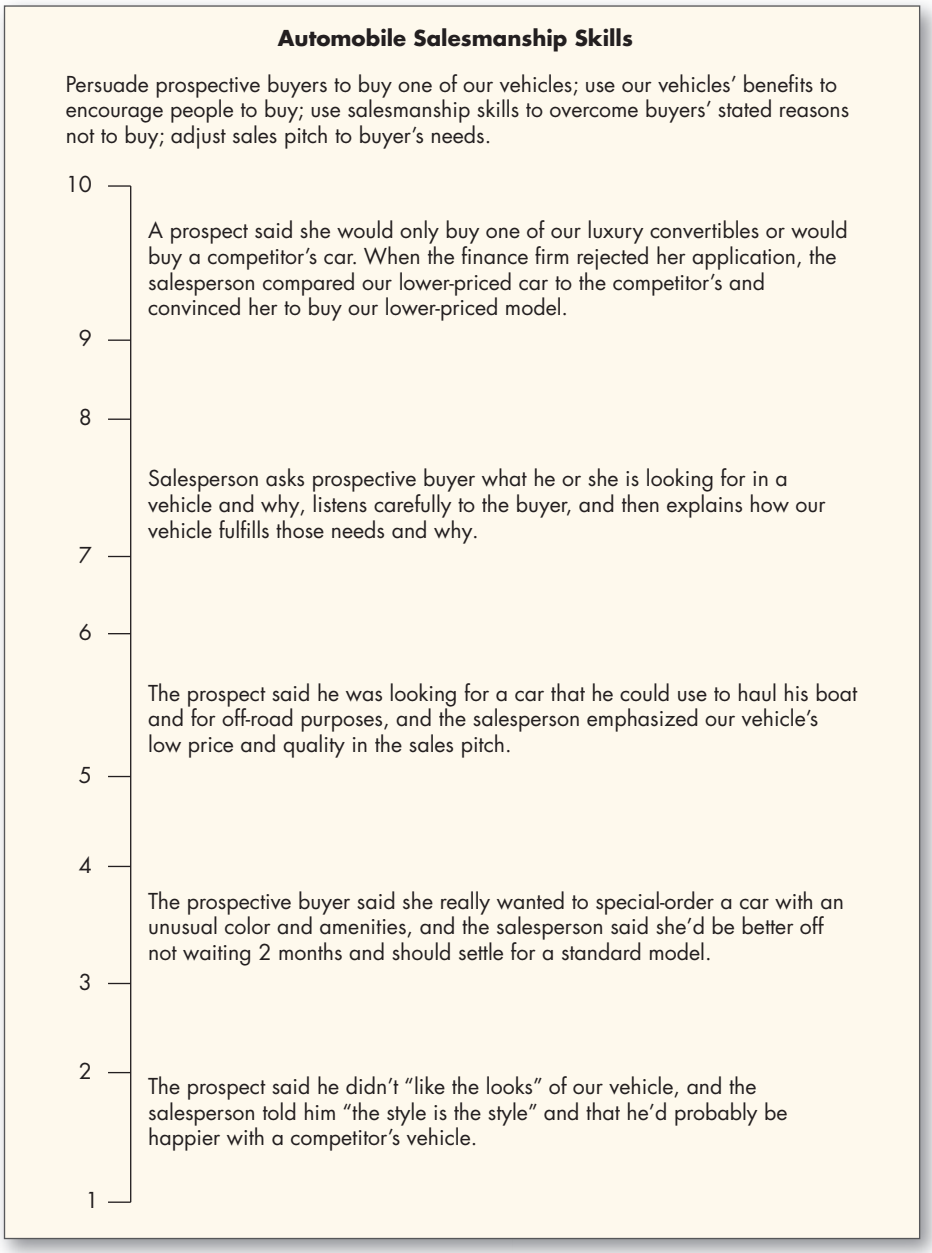
behaviorally anchored rating scale (BARS)
An appraisal method that aims at combining the benefits of narrative critical incidents and quantified ratings by anchoring a quantified scale with specific narrative examples of good and poor performance.

A **behaviorally anchored rating scale (BARS)** is an appraisal tool that anchors a numerical rating scale with specific illustrative examples of good or poor performance. Developing a BARS typically involves five steps:

1. ***Write critical incidents.*** Ask the job's jobholders and/or supervisors to write specific illustrations (critical incidents) of effective and ineffective performance on the job.
2. ***Develop performance dimensions.*** Have these people cluster the incidents into 5 or 10 performance dimensions, such as "salesmanship skills."
3. ***Reallocate incidents.*** To verify these groupings, have another team who also knows the job reallocate the original critical incidents to the cluster they think it fits best. Retain a critical incident if most of this second team assigns it to the same cluster as did the first.
4. ***Scale the incidents.*** This second group then rates the behavior described by the incident as to how effectively or ineffectively it represents performance on the dimension.
5. ***Develop a final instrument.*** Choose about six or seven of the incidents as the performance dimension's behavioral anchors.[51] Figure 9-8 illustrates a BARS, for a car salesperson.

Three researchers developed a BARS for grocery checkout clerks.[52] They collected many checkout clerk critical incidents. They then grouped these into eight performance dimensions: Knowledge and Judgment; Conscientiousness; Skill in Human Relations; Skill in Operation of Register; Skill in Bagging; Organizational Ability of Checkstand Work; Skill in Monetary Transactions; and Observational Ability.

FIGURE 9-8 Behaviorally Anchored Rating Scale



They then developed behaviorally anchored rating scales *for each of these eight performance dimensions*. Each had a vertical scale (ranging from 1 to 9) for rating performance levels, from "extremely poor" to "extremely good." Then they used critical incidents (such as "by knowing the price of items, this checker would be expected to look for mismarked and unmarked items") to anchor or illustrate each level of performance.

This method has several advantages. Most notably, the critical incidents along the scale show what to look for in terms of superior, average, and poor performance. They also make it easier to explain the ratings to appraisees. Furthermore, using several performance dimensions (such as "salesmanship skills") helps make the performance dimensions more independent of one another. So, for example, a rater should be less likely to rate an employee high on all dimensions simply because the person was rated high in "salesmanship skills."[53]

Management by Objectives

The term *management by objectives (MBO)* usually refers to a multistep company-wide goal-setting and appraisal program. MBO requires the manager to set specific

measurable, organizationally relevant goals with each employee, and then periodically discuss the latter's progress toward these goals. The steps are

1. ***Set the organization's goals.*** Establish a companywide plan for next year, and set goals.
2. ***Set and discuss departmental goals.*** Department heads and their superiors jointly set goals for their departments. Then they discuss the department's goals with their subordinates, and ask them to think about what their own related individual goals should be.
3. ***Set individual goals.*** Department heads and their subordinates set short-term performance targets for each employee.[54]
4. ***Conduct performance reviews.*** After a period, department heads compare each employee's actual and expected results.
5. ***Provide feedback.*** Department heads hold periodic performance review meetings with subordinates. Here they discuss the subordinates' performance and make any plans for rectifying or continuing the person's performance.

Formal MBO programs require numerous forms and meetings, and their use has diminished. However, some companies successfully use streamlined versions. For example, at the beginning of the period, the employee and manager set three or four goals for the employee for the coming few months. Then they have brief monthly meetings to monitor progress and to keep the employee focused.[55] Google's CEO sets companywide "OKRs" (objectives and key results) quarterly. All Google employees then make sure their own goals are in synch with the CEO's. All employees' goals are posted on Google's internal website next to their names.[56]

Appraisal in Practice: Using Forms, Software, or Cloud-Based Systems

Employers have used hard-copy forms, PC software packages, or cloud-based systems to actually conduct appraisals. Many still use paper forms, from vendors such as Staples and HR Direct.[57] Forms are simple to use, but too time-consuming as headcount rises.

Computerization facilitates appraisals. For example, some online appraisal tools let managers fine-tune the behaviorally anchored examples (such as "presents ideas clearly" and "lacks structure") on a graphic rating. However cloud-based systems have mostly replaced locally stored appraisal packages.

GaudiLab/Shutterstock

Many employers today make use of computerized or online appraisals for evaluating employee performance.

Many vendors supply cloud-based appraisal tools. They include Oracle,[58] Workhuman,[59] Sage,[60] and HR Cloud.[61] Most are *modules*—components of talent management systems that also include, for instance, applicant tracking systems.[62] The actual (cloud-based) appraisal tools range from graphic rating type tools to continuous feedback performance management systems to 360 appraisals.[63] Some offer upfront fees to buy, but most charge about $7 to $15 per month per employee.[64]

Big Data

Employers also use AI and machine learning to analyze multiple criteria of employees' performance. For example, Chinese insurer Ping An used AI to identify characteristics that distinguished its top insurance agents.[65] By analyzing huge amounts of performance data, training information, and customer visit records, Ping An improved its insurance agent selection and performance management processes. Within a year, Ping An increased its retained agent ratio to close to 100% and cut about $90 million in expenses.

Electronic Performance Monitoring

electronic performance monitoring (EPM)
Having supervisors electronically monitor the amount of computerized data an employee is processing per day, and thereby his or her performance.

Electronic performance monitoring (EPM) systems allow managers to monitor the employees' rate, accuracy, and time spent working online.[66] Similarly, some employers track workers' performance through wearables. For example, the British retailer Tesco has warehouse workers wear armbands. These track which specific goods each worker is moving and how long the task is taking to complete, and quantify and report things like how long it takes each worker to fulfill each order.[67]

EPM use rose during the pandemic, as the accompanying New Normal box explains.

THE NEW NORMAL

Electronic Performance Monitoring of Remote Workers

With more employees working from home, the question was how to monitor their performance. Increasingly, the answer was online monitoring tools.[68] In just the first few months of the pandemic, for instance, one survey found that the percentage of employers passively computer-tracking their remote workers jumped from 16% to 26%.

Many vendors offer such tracking services. They include ActivTrak, Work Examiner, Teramind, and Interguard. Generally, such systems monitor each employee's computer activities, such as e-mail, file transfers, webpages, social media, keystrokes, applications, and printing. Most also periodically take screen grabs of employees' computer work screen. Fees range from about $5 to $13 per month per employee.

Employers have legal obligations. The basic rule is to let employees know how you're monitoring them; then get their written consent ahead of time. It's particularly important to do so when employees may be using their own personal devices such as iPads at work. They may reasonably assume they have a greater right to privacy when using their own devices.

Aside from the legal issues, EPM systems can be a mixed blessing. They seem to raise productivity, but if managed clumsily can also trigger employee resistance. And one (possibly short-term) effect of the pandemic was to prompt many employers to have more gentle appraisals. To quote *The Wall Street Journal* at the time, "you should just be giving a pat on the back to your employees for showing up."[69] ■

Conversation Days

When employees at Juniper Networks Inc. expressed concerns about their annual performance reviews and the lack of positive feedback, Juniper changed the process. Instead of once-a-year performance reviews, there are now semiannual "conversation days." The stress in these manager–employee conversations is on areas for improvement and growth, and on setting stretch goals that align with the employee's career interests. There are no explicit performance ratings. GE is similarly experimenting with substituting frequent conversations for traditional appraisals.

Using Multiple Methods

Which appraisal tool to use? In practice, many use a rating form that merges several approaches. For example, Figure 9-2 is a graphic rating scale anchored with behavioral incidents such as "Consistently meets job expectations. . . ."

Example: Rating Uber Drivers[70]

Uber's driver rating system rates drivers on three metrics—on how passengers rate the driver, and on what percentage of rides the driver accepts, and cancels. Uber reportedly wants drivers to maintain at least an 80–90% acceptance rate and no more than a 5% trip cancellation rate.

As most Uber users know, after each ride Uber prompts the passenger to rate the driver on a 1–5 star scale. A new driver begins with a 5-star rating. Then, as more passengers rate the driver, the driver's average rating tends to change. The driver's rating is generally an average of his or her last 500 trips. For drivers, an average below 4.6 reportedly puts the driver in the "danger zone" for possible deactivation. Only about 2–3% of drivers fall here. One or two star ratings often reflect arguments or harassment. Drivers get weekly emails with notices if their activation is in danger.

POTENTIAL RATING PROBLEMS As with most ratings systems, the Uber driver ratings may say more about the passenger than about the driver. For example, people may view a 4-star rating as a "B," when in fact at Uber it's a failing grade. Furthermore, most employers try to minimize biased appraisals by supervisors: that is harder to do when the rater isn't an employee (and is probably a stranger). Furthermore, extraneous factors (such as surge pricing) can trigger lower ratings.

HOW TO GET A BETTER DRIVER RATING In any case, Uber and Uber drivers list some of the things drivers can do to get better ratings. Some things to avoid include having an attitude, not knowing your way around, reckless driving, and texting while driving. Some "Do's" for drivers include offer passengers bottled water, open the door, offer to carry bags, keep the car clean—and don't ask for five-star ratings.

Critical Employees: Appraisals and Consequences

In many situations, an employee's rating, development, and rewards depend not just on the person's performance, but on his or her value to the company. Thus, a low-performing critical employee might get training, while a similarly appraised noncritical one is transferred out. GE prioritizes jobs, and focuses on what it calls its employee "game changers."[71] Unilever includes 15% of employees per management level in its high-potential list each year.[72] McKinsey & Co. recommends limiting the "high potential group in whom the company invests heavily to no more than 10% to 20% of managerial and professional staff."[73]

Figure 9-9 illustrates one way to approach such appraisals and consequences. The company might use a 3 × 3 matrix to plot employees by *Performance* (high, average,

		EMPLOYEE PERFORMANCE		
	How Critical Is This Person's Position to Our Company?	High	Average	Low
HOW CRITICAL?	This person is in a position that is critical to our company's survival and growth	Provide additional development experiences and rewards	Provide additional development experiences and rewards	Consider additional training to improve performance
	This person's position serves an important role but is not critical to our company's survival and growth	Provide additional development experiences to move to more important role	Consider additional training	Consider additional training, or replacement
	This person is in a position that is noncritical and (for example) is outsourceable	Consider providing additional training and development to move to more important role	Consider additional training	Consider dismissal or outsourcing

FIGURE 9-9 One Way to Customize Appraisals, Development, and Rewards for Critical Employees

low) and *Value to the Organization* (critical, important, noncritical). Consider a chemical engineering company. Here the firm's experienced engineers may be "critical," engineer-trainees, sales, accounting, and HR "important," and outsourceable employees such as maintenance "noncritical."[74]

LEARNING OBJECTIVE 9-3

Give examples of how to deal with potential appraisal error problems.

Dealing with Rater Error Appraisal Problems

In a perfect world, all employers would use performance appraisal systems with clear goals, fair appraisals, swift feedback, and useful coaching. Alas, that is rarely the case.[75] Graphic-type rating forms in particular are susceptible to several "rater error" problems. These are systematic errors in judgment that occur when people evaluate each other: unclear standards, halo effect, central tendency, leniency or strictness, recency, and bias.

Potential Rater Error Problems

unclear standards
An appraisal that is too open to interpretation.

UNCLEAR STANDARDS Table 9-2 illustrates the **unclear standards** problem. This rating scale seems objective. However, it might well result in unfair appraisals because the traits and degrees of merit are ambiguous. For example, different supervisors might define "good" performance, "fair" performance, and so on, differently. The same is true of traits such as "quality of work."[76]

TABLE 9-2 A Graphic Rating Scale with Unclear Standards

	Excellent	Good	Fair	Poor
Quantity of work				
Quality of work				
Creativity				
Integrity				

Note: For example, what exactly is meant by "good," "quantity of work," and so forth?

The way to fix this problem is to include descriptive phrases that define or illustrate each trait, as in Figure 9-2. That form spells out what measures like "Superior" or "Outstanding" actually mean. This specificity leads to more consistent and more easily explained appraisals.

halo effect
In performance appraisal, the problem that occurs when a supervisor's rating of a subordinate on one trait biases the rating of that person on other traits.

HALO EFFECT Experts define **halo effect** as "the influence of a rater's general impression on ratings of specific ratee qualities."[77] For example, supervisors often rate unfriendly employees lower on all traits, rather than just on "gets along well with others." Being aware of this problem is a step toward avoiding it. Supervisory training can also alleviate the problem. So can using a BARS (on which, recall, the performance dimensions are usually more independent of each other).

central tendency
A tendency to rate all employees the same way, such as rating them all average.

CENTRAL TENDENCY **Central tendency** means rating all employees average. For example, if the rating scale ranges from 1 to 7, raters tend to avoid the highs (6 and 7) and lows (1 and 2) and rate most of their people between 3 and 5. Doing so distorts the evaluations, making them less useful for promotion, salary, or counseling purposes. Ranking employees instead of using graphic rating scales can reduce this problem, since ranking means you can't rate them all average.

strictness/leniency
The problem that occurs when a supervisor has a tendency to rate all subordinates either high or low.

LENIENCY OR STRICTNESS Other supervisors tend to rate all their subordinates high (or low), just as some instructors are notoriously high or low graders. This **strictness/leniency** problem is especially severe with graphic rating scales. *Ranking* forces supervisors to distinguish between high and low performers.

Supervisors must be familiar with appraisal techniques, understand and avoid problems that can undermine appraisals, and know how to conduct appraisals fairly.

Fizkes/123RF

There are other solutions. The employer can recommend that supervisors avoid giving all their employees high (or low) ratings. A second is to require a distribution—that, say, about 10% of the people should be rated "excellent," 20% "good," and so forth. (But remember, it may not be an error at all, as when all subordinates really are superior.)[78]

RECENCY EFFECTS Recency means letting what the employee did recently blind you to what his or her performance has been over the year. The main solution is to accumulate critical incidents all year long.

bias
The tendency to allow individual differences such as age, race, and sex to affect the appraisal ratings employees receive.

Bias is a serious potential appraisal problem, as the accompanying Diversity Counts box explains.

DIVERSITY COUNTS

The Problem of Bias

Biases distort appraisals more than we realize. Thus, telling a subordinate that she's not sufficiently assertive may sound objective but actually just reflect numerous biases. For example, different people define assertiveness differently; some supervisors are more lenient, some more strict; and some may hold unconscious stereotypes regarding how women or members of other groups should or will behave.[79]

Biased appraisals (*bias* means the tendency for individual differences such as age, race, and sex to affect the ratings employees receive) have many causes. One is rater personality. For example, raters who score higher on "conscientiousness" tend to give their peers lower ratings—they were stricter, in other words; those more "agreeable" gave higher ratings—they were more lenient.[80]

Furthermore, "performance ratings amplify the quality of the personal relationship between boss and employee. Good relationships tend to create good [appraisal] experiences, bad relationships bad ones."[81]

Unfortunately, subordinates' traits (age, race, gender, and so on) also affect ratings. For example, one study concluded that the better a female employee was in terms of her actual performance and her educational and work experience, the more likely it was she'd be rated low.

Is that possible? Unfortunately, based on this study, yes.[82] Not all evaluators were prone to this negative bias. Only "male evaluators who are high on SDO [those inclined to be socially dominant] and evaluating a high-performing female subordinate appear to be prone."[83] But unless employers guard against such bias, they could be condoning biased promotion and pay decisions against some of their highest-performing and highest-potential employees. The bottom line is that some experts contend that more than half of how you rate someone reflects your biases, rather than the person's performance.[84]

Furthermore, it's not just appraisers who are biased, appraisees are too. For example researchers studied the results of long-distance running events covering 1,320 marathon runners.[85] They split the runners into two groups. One group consisted of runners who finished about where they thought they should in terms of time. The second group finished well below their best previous times. When they had to self-report their times in the race, those that did about as expected were fairly accurate in reporting their times. Those who did much worse than expected self-reported faster times than they actually achieved.

Bias is therefore one big reason to use multiple raters, to have the supervisor's boss review ratings, and/or to have "calibration" meetings. Here supervisors discuss and explain among themselves the appraisals they gave.[86] Training appraisers is critical too, but no panacea. One study concluded that doing a better job of training raters and ratees led to more discrimination complaints because better appraisal systems also make it easier to file complaints.)[87] ■

Addressing the Need for Fairness

So, due to either the supervisor's ineptness or the appraisal method's inherent unfairness, many appraisals are unfair. The employees' standards should be clear, employees should understand the basis on which you're going to appraise them, and the appraisal should be objective.[88] Give the employee an opportunity to express his or her opinions.

Supervisors should be trained in both the technical and interpersonal aspects of appraising employees and giving feedback.[89] They should understand how to build trust, engage in continuous performance conversations, diagnose and productively address performance issues, and deliver feedback constructively.[90] To facilitate this, the employer should evaluate supervisors partly based on their effectiveness in managing performance.[91]

Figure 9-10 lists best practices for ensuring fair appraisals. Table 9-3 summarizes each appraisal method's pros and cons.

FIGURE 9-10 Checklist of Best Practices for Administering Fair Performance Appraisals

- Base the performance review on duties and standards from a job analysis.
- Try to base the performance review on observable job behaviors or objective performance data.
- Make it clear ahead of time what your performance expectations are.
- Use a standardized performance review procedure for all employees.
- Make sure whoever conducts the reviews has frequent opportunities to observe the employee's job performance.
- Either use multiple raters or have the rater's supervisor evaluate the appraisal results.
- Include an appeals mechanism.
- Document the appraisal review process and results.
- Discuss the appraisal results with the employee.
- Let the employees know ahead of time how you're going to conduct the reviews.
- Let the employee provide input regarding your assessment of him or her.
- Indicate what the employee needs to do to improve.
- Train the supervisors who will be doing the appraisals. Make sure they understand the procedure to use, how problems (like leniency and strictness) arise, and how to deal with them.

TABLE 9-3 Important Advantages and Disadvantages of Appraisal Tools

Tool	Advantages	Disadvantages
Graphic rating scale	Simple to use; provides a quantitative rating for each employee.	Standards may be unclear; halo effect, central tendency, leniency, bias can also be problems.
BARS	Provides behavioral "anchors." BARS is very accurate.	Difficult to develop.
Alternation ranking	Simple to use (but not as simple as graphic rating scales). Avoids central tendency and other problems of rating scales.	Can cause disagreements among employees and may be unfair if all employees are, in fact, excellent.
Forced distribution method	End up with a predetermined number or % of people in each group.	Employees' appraisal results depend on your choice of cut-off points.
Critical incident method	Helps specify what is "right" and "wrong" about the employee's performance; forces supervisor to evaluate subordinates on an ongoing basis.	Difficult to rate or rank employees relative to one another.
MBO	Tied to jointly agreed-upon performance objectives.	Time-consuming.

Know Your Employment Law: Appraising Performance

The performance appraisal often plays a role in employment lawsuits, such as when employees claim that they were fired for poor performance in violation of an implied contract, or claim they were defamed during or by an appraisal.[92]

Similarly, courts often find that inadequate appraisal systems lie at the root of illegal discriminatory actions, such as in layoffs, discharges, or merit pay.[93] For example, in one classic case the court held that the employer violated Title VII when it laid off several Hispanic-surnamed employees based on poor performance ratings. The court said the practice was illegal because: the firm based the appraisals on subjective supervisory observations; it did not administer and score the appraisals in a standardized fashion; and two of the three supervisory evaluators did not have daily contact with the employees they appraised. Personal bias, unreasonably rating everyone high or low, and relying just on recent events are some other reasons courts have used to declare appraisal processes as unfair.[94]

Steps to ensure your appraisals are legally defensible include the following:

- Base the appraised duties and criteria on a job analysis.
- Give performance standards to employees in writing.
- Don't just give a single overall rating; appraise several dimensions (quality, quantity, etc.), and have a system to combine these ratings.
- One appraiser should never have absolute authority to determine a personnel action.
- Document everything.[95]
- Train supervisors. At least provide raters with written instructions on how to use the rating scale.
- In reviews of U.S. court decisions, actions reflecting *fairness* and *due process* were most important.[96]
- Finally, to help minimize the discriminatory effects of performance appraisal, "treat everyone in exactly the same way."[97]

LEARNING OBJECTIVE 9-4

List steps to take in the appraisal interview.

appraisal interview
An interview in which the supervisor and subordinate review the appraisal and make plans to remedy deficiencies and reinforce strengths.

Managing the Appraisal Interview

Periodic appraisals typically culminate in an **appraisal interview**. Here the manager and the subordinate review the appraisal and make plans to remedy deficiencies and reinforce strengths. These interviews are often uncomfortable. Few people like to receive—or give—negative feedback. Adequate preparation and effective implementation are essential. Supervisors face four types of appraisal situations, each with its unique objectives:[98]

- *Satisfactory—Promotable* is the easiest interview: The person's performance is satisfactory and promotion looms. Your objective is to develop specific development plans.
- *Satisfactory—Not promotable* is for employees whose performance is satisfactory but for whom promotion is not possible. The objective here is to maintain satisfactory performance. The best option is usually to find incentives that maintain performance, such as extra time off, a small bonus, or recognition.
- When the person's performance is *unsatisfactory but correctable*, the interview objective is to lay out an action/development plan for correcting the unsatisfactory performance.
- Finally, the interview where the employee is *unsatisfactory* and the situation is *uncorrectable* may be particularly tense. Dismissal is often the usual option.

How to Conduct the Appraisal Interview

Useful interviews begin before the interview. Beforehand, review the person's job description, compare performance to the standards, and review previous appraisals. Give the employee a week's notice to review his or her work. Set a time for the interview. Interviews with lower-level personnel like clerical workers should take less than an hour. Interviews with management employees often take 1 or 2 hours. Conduct the interview privately with no interruptions.

An effective interview requires effective coaching skills. Coaching doesn't mean telling someone what to do. Instead, it is a process.[99] The first, *preparation* step, means understanding the problem and the employee. Here the manager will watch the employee at work to see what the person is doing, review productivity data, and observe the workflow.

Planning the solution is next. This requires reaching agreement on the problem, and laying out a change plan in the form of *steps to take, measures of success,* and *date to complete*.

With agreement on a plan, the manager can start the *actual coaching*. One writer says, "An effective coach offers ideas and advice in such a way that the subordinate can hear them, respond to them, and appreciate their value."[100] Useful guidelines include the following:

1. ***Talk in terms of objective work data.*** Use examples such as absences, tardiness, and productivity.
2. ***Don't get personal.*** Don't say, "You're too slow producing those reports." Instead, compare the person's performance to a standard. ("These reports should normally be done within 10 days.") Similarly, don't compare the person's performance to that of other people. ("He's quicker than you are.")
3. ***Encourage the person to talk.*** Stop and listen to what the person is saying; ask open-ended questions (such as, "What do you think we can do to improve the situation?"). Use a command such as "Go on." Restate the person's last point as a question, as in, "You don't think you can get the job done?"
4. ***Get agreement.*** Make sure the person leaves knowing specifically what they're doing right and doing wrong, and with agreement on how things will be improved, and has an action plan with targets and dates.[101]

MAKE IT A DIALOGUE Whether subordinates express satisfaction with the interview depends on their not feeling threatened, having an opportunity to present their feelings, and being able to influence the course of the interview.

For example, researchers audiotaped 48 actual annual appraisal interviews.[102] They analyzed these based on the communications that occurred between the supervisors

and the employees. Some supervisors used more relation-oriented behaviors in the interviews, making comments like "I agree with that," and "that's a good idea." Other supervisors did not. The researchers found that the relation-oriented comments elicited positive employee responses, such as "I see what you mean, could we do this?"

The results also showed that the best appraisal interviews weren't monologues in which supervisors talked about what employees did right or wrong. Instead, to paraphrase the researchers, *the best appraisal interviews are dialogues between equal partners*.[103] Ask follow-up questions (questions that elicit more information). Doing so does uncover more information, in part because it signals your interest in what the person is saying.[104]

How to Handle a Defensive Subordinate

When a supervisor tells someone his or her performance is poor, the first reaction is often denial. Denial is a defense mechanism. By denying the fault, the person avoids having to question his or her own competence.

Therefore, dealing with defensiveness is an important appraisal skill. In his book *Effective Psychology for Managers*, psychologist Mortimer Feinberg suggests the following:

1. Recognize that defensive behavior is normal.
2. Never attack a person's defenses. Don't try to "explain someone to themselves" (as in, "You know the reason you're using that excuse is that you can't bear to be blamed."). Instead, concentrate on the fact ("sales are down").
3. Postpone action. Sometimes it's best to do nothing. Employees may react to sudden threats by hiding behind their defenses. Given sufficient time, a more rational reaction takes over.
4. Recognize your limitations. The supervisor is (probably) not a psychologist. Offering understanding is one thing; trying to deal with psychological problems is another.

How to Criticize a Subordinate

When necessary, criticize in a manner that lets the person maintain his or her dignity—in private, and constructively. Provide examples of critical incidents and specific suggestions. Avoid once-a-year "critical broadsides" by giving feedback periodically, so that the formal review contains no surprises. Never say the person is "always" wrong. Criticism should be objective and free of personal bias.

When the employee is not doing well, the manager will have to decide how candid to be. Former GE CEO Jack Welch once said it's cruel to tell someone who's mediocre that their work is satisfactory.[105] Someone who might have changed course may instead waste years in a dead-end job, only to be dismissed when a more demanding boss arrives.

Some managers do take a hard line. Not all employees are salvageable, and not all managers will spend time trying to overcome an employee's faults. For example, when one Netflix manager requested a performance improvement plan for a worker, the then-head of HR said basically, "Don't waste your time." Her position was, why waste time coaching this person if she'll probably never do the job right anyway?[106]

On the other hand, many employers are now emphasizing praise over criticism. One tells its managers not to touch on more than two areas that need improvement but instead to emphasize subordinates' strengths. Most *Fortune* 500 companies use the Gallup StrengthsFinder tool (www.gallup.com/cliftonstrengths/en/home.aspx) to help employees identify and build on their strengths.[107] Facebook has used StrengthsFinder to help train supervisors in a style that better fits its mostly millennial-aged staff. It would seem that to attract, motivate, and retain today's new employees, a less critical appraisal approach is sometimes advisable.[108]

GET AGREEMENT ON A PLAN The aim of the appraisal should be to improve unsatisfactory performance (and/or to reinforce exemplary performance). The appraisal should therefore result in a plan (Figure 9-11) for what the employee must do to improve his or her efforts.

How to Handle a Written Warning

The employee's performance may be so weak that it requires a written warning. Such warnings serve two purposes: (1) to shake your employee out of his or her bad habits, and (2) to help you defend your rating to your own boss and (if needed) to the courts.

FIGURE 9-11 Sample Employee Development Plan

Source: Copyright Gary Dessler, PhD.

SAMPLE EMPLOYEE DEVELOPMENT PLAN: Employee's Name			
Employee's main objectives for this period:	Did employee fully achieve objective (include rating from appraisal form, from Poor to Outstanding)	What training or other actions are required for improved performance on this objective?	Completion dates:
1.			
2.			
3.			
4.			
5.			
Employee Signature _____		Manager Signature _____	

Written warnings should list the employee's standards, make it clear that the employee was aware of the standard, specify any deficiencies relative to the standard, and show that the employee had an opportunity to correct his or her performance.

Summary Interview Checklist

Figure 9-12 provides an appraisal interview checklist.

FIGURE 9-12 Appraisal Interview Checklist

Source: Copyright Gary Dessler, PhD.

Appraisal Interview Checklist

Interview Item: Did you	Yes	No
1. Review the employee's job description, previous appraisals, goals, and current job standards prior to the interview?		
2. Provide adequate time and a private, cordial, non-threatening environment for the interview?		
3. Focus your discussion and comments on objective work data?		
4. Encourage the appraisee to talk (restate last comment as a question, etc.), and make it clear you are listening (nod, etc.)?		
5. Give the appraisee an opportunity to fully present his or her ideas and feelings?		
6. Consciously avoid attacking the appraisee's defenses?		
7. Criticize in a way that allowed the appraisee to maintain his or her dignity?		
8. Discuss your evaluation of each of the appraisee's job duties and/or goals?		
9. Reach agreement on the training and development required to improve the appraisee's performance?		
10. Discuss, as appropriate, the steps the employer may take if improvement goals are not met?		
11. Discuss the appraisee's performance in light of his or her career aspirations?		

LEARNING OBJECTIVE 9-5

Explain key points in how to use the appraisal interview to boost employee engagement.

Employee Engagement Guide for Managers

Use the Appraisal Interview to Build Engagement

Managers can use the appraisal interview to improve their employees' engagement. Here are relevant findings and implications.

1. Employees who understand how they and their departments contribute to the company's success are more engaged.[109] Therefore, *take the opportunity to show the employee how his or her efforts contribute to the "big picture"—to his or her team's and the company's success.*
2. Another study found that employees' engagement rose when they experienced what the researchers called "psychological meaningfulness" (namely, the perception that one's role in the organization is worthwhile and valuable).[110] *Use the interview to emphasize the meaningfulness to the company of what the employee is doing.*
3. Employees who experience "psychological safety" (the perception that it's safe to bring oneself to a role without fear of damage to self-image, status, or career) were more engaged.[111] Therefore, *be candid and objective but do so supportively and without unnecessarily undermining the employee's self-image*.[112]
4. Efficacy drives engagement. Therefore use the interview to make sure your employee *has what the person needs* to do a good job.[113]
5. Managers should be candid and honest, but don't unnecessarily emphasize the negatives. Doing so undermines employee engagement. In one survey, Gallup asked about 1,000 U.S. employees to respond to two statements: "My supervisor focuses on my strengths or positive characteristics" and "My supervisor focuses on my weaknesses or negative characteristics." It found that about three times more employees whose *managers focused on strengths* were engaged, compared with those who focused on weaknesses.[114]
6. Involvement in decision making and letting employees voice their opinions improve employee engagement.[115] Use the interview as an opportunity to *show your employees that you listen to their ideas and value their contributions*.
7. Engagement rises when employees have an opportunity to improve their careers.[116] During the interview, discuss the person's evaluation *in the context of where the person sees themselves heading career-wise*.[117]
8. Research shows "a significant positive association between (1) distributive [what rewards people get] and informational [what information they get] justice dimensions, and (2) employee engagement."[118] Bottom line: *Make sure that the interviewee views the appraisal and the rewards or remedial actions as fair*.

LEARNING OBJECTIVE 9-6

Explain how you would take a performance management approach to appraisal.

Performance Management

Researchers recently reviewed 34 years of studies of performance appraisal's effectiveness. They concluded that: " . . . we simply do not see any sufficient empirical basis for deciding whether or not performance rating adds value to [performance management] systems . . . " [119]

One problem is that performance appraisal is fine in theory, but in practice appraisals don't always go smoothly. Goals aren't set, the "appraisal" is a form from an office supply store, appraisers may be biased, and the yearly feedback, if any, may be agonizing, with both participants fleeing before any coaching takes place. This runs counter to common sense. Employees should know what their goals are, performance feedback should be useful, and if there is a problem, the time to take action is right away, not six months later.

Total Quality Management and Performance Appraisal

Some management gurus have long argued that performance appraisals neither motivate employees nor facilitate their development.[120] For example, proponents of the total quality management (TQM) movement sometimes argued for eliminating appraisals completely.[121]

Total quality management (TQM) programs are organizationwide programs that endeavor to maximize customer satisfaction through continuous improvements.[122] Why do TQM advocates often argue against performance appraisals? Basically, they argue that the organization is a system of interrelated parts and processes (selling, producing, training, rewarding, and so on). They say that employees' performance is usually more a function of things like training, communication, tools, and supervision than of their motivation. So if the employee isn't doing well, it's more the system (poor training, for instance) than the worker's motivation.

What would performance appraisal look like in a TQM company? At Toyota's Lexington, Kentucky, Camry plant, teams of employees monitor their own results, generally without managers' interventions. In frequent meetings, team members continuously compare and align those results with the work team's standards, and with the plant's overall quality and productivity goals. Team members who need coaching and training receive it. To a large extent, team members self-manage their performance.

What Is Performance Management?

performance management
The *continuous* process of identifying, measuring, and developing the performance of individuals and teams and *aligning* their performance with the organization's *goals*.

As at Toyota, many employers have moved from sole reliance on performance appraisal to *performance management*. **Performance management (PM)** is the *continuous* process of identifying, measuring, and developing the performance of individual employees and teams, and *aligning* their performance with the organization's *goals*.[123] In comparing performance appraisal and performance management, "the distinction is . . . between (a) a year-end event (the completion of the appraisal form), and (b) a [performance management] process that starts the year with performance planning [and setting goals] and is integral to the way people are managed throughout the year."[124]

We can summarize PM's basic elements as follows:[125]

1. ***Share the company's overall goals with all employees.*** This means (a) communicating the company's goals for the coming year (or period) to all employees, and then (b) translating these goals into team and individual goals.
2. ***Continuous performance monitoring.*** This often means using computerized systems to *continuously measure* and monitor the team's and each employee's progress toward meeting their performance goals.
3. ***Continuous feedback.*** This means continuously providing in-person or computerized feedback regarding progress toward team and individual employee goals. This may involve computerized dashboards, as well as formal appraisals.
4. ***Coaching and developmental support.*** This should help employees do their jobs effectively.
5. ***Recognition and rewards.*** These provide incentives to keep each employee's performance on track.

Performance Management Technology

Employers often use technology such as cloud-based performance management software, HR scorecards, and digital dashboards (see our discussion in Chapter 3) to continuously monitor, display, and assess each team's and employee's performance. *Oracle Performance Management Cloud Service* illustrates this.[126] The system's dashboards enable managers to continuously: monitor each team's or employee's performance;

track and measure employee achievement against their goals; let employees update progress toward goal achievement; let employees and managers log comments so the process is real-time and interactive; and, if performance exceptions are noted, *take corrective action* before things swing out of control.

Performance Management Process Example[127]

The trend in appraisal has been to provide real-time feedback on performance.[128] For example, GE uses a smart phone app it calls PD@GE to let supervisors assess employees continuously rather than once a year.[129] IBM introduced a new app-based performance review it calls Checkpoint.[130] It allows for more continuous monitoring of performance and feedback.

However, while such continuous monitoring of goal attainment and continuous feedback are laudable, the employer has to keep one big practical consideration in mind. In particular, at the end of the day, the employer must be able to differentiate among employees and make hard-nosed pay raise and promotional decisions; any performance management process that can't do that isn't practical. Some means of formal appraisal is usually required. An example follows.

THE GLOBAL ACCOUNTING FIRM Deloitte LLP delivers audit, consulting, tax, and related services to major corporate clients. With more than 65,000 employees, doing so requires an effective performance management system.[131]

THE PROBLEM Deloitte's managers knew they could improve their performance management system. Deloitte was devoting two *million* hours per year to appraisals. And the appraisals focused more on history than on how to improve employees' performance. Management decided to change the process.

THE NEW GOALS The team creating the new performance management process set three goals: first, it should *clearly reflect actual employee performance*. Second, it should *reward employee performance, particularly in terms of bonuses*. Third, the new process should *energize performance*, by monitoring performance often enough so that employees could improve their performance during their assignments. (In any year, a Deloitte employee may be assigned to one or more teams working on assignments [such as an audit], for a particular client.)

THE NEW PERFORMANCE MANAGEMENT PROCESS Deloitte's new performance management process has several features. First, each team member *interacts with his or her team leader periodically* during the assignment, to get frequent feedback on how the employee is doing and how to improve.

Second, at the end of the assignment, the team leaders don't just present their opinions about how the employee performed. Instead, the team leader provides an "employee performance snapshot." The team leader reports how the leader *plans to act* regarding the employee. For example, (1) From what I know about this person's performance, if it were my money, here is how I would compensate this person; (2) based on what you know about this person's performance, would you want this person on your team again; (3) do you think this person's performance is such that it might harm the customer or the team; and (4) would you say this person is ready for promotion today?

Then, at the end of the year, Deloitte compiles all these assignment "snapshots" *in a year-end evaluation*. That evaluation, plus input from a team leader who knows the employee's performance personally, determines the employee's compensation.

The Manager's Role in Performance Management

Finally, technology isn't required for managers who want to take a performance management approach. What is required is having the right managerial philosophy and on-the-job behaviors. The manager's behaviors should include linking employees' goals

to the company's goals; giving employees continuous feedback; providing required resources and coaching; rewarding good performance; and remembering that employees' performance reflects more than just whether they're motivated.[132]

HR in Action at the Hotel Paris Both Lisa and the firm's CFO were concerned by the current disconnect between (1) what their current appraisal process was focusing on and (2) what the company wanted to accomplish in terms of its strategic goals. They wanted the firm's new performance management system to help breathe life into the firm's strategic performance. To see what they did, read the case at the end of this chapter.

Chapter Review

Chapter Section Summaries

9-1. **Performance appraisal** means evaluating an employee's current or past performance relative to his or her performance standards. Managers appraise their subordinates' performance to obtain input on which promotion and salary raise decisions can be made, to develop plans for correcting performance deficiencies, and for career-planning purposes. Supervisory ratings are still at the heart of most appraisal processes.

9-2. The appraisal is generally conducted using one or more popular **appraisal methods or tools.** These include graphic rating scales, alternation ranking, paired comparison, forced distribution, critical incidents, behaviorally anchored rating scales, MBO, computerized performance appraisals, and electronic performance monitoring.

9-3. The appraisal process can be improved by eliminating chronic **problems** that often undermine appraisals and graphic rating scales in particular. These problems include unclear standards, halo effect, central tendency, leniency or strictness, and bias.

9-4. An appraisal typically culminates in an **appraisal interview.** Adequate preparation (including giving the subordinate notice, reviewing his or her job description and past performance, choosing the right place for the interview, and leaving enough time for it) is essential.

9-5. The manager can use the appraisal interview to improve the employees' level of **engagement.** For example, show the employee how his or her efforts contribute to the team's and the company's success; use the interview to emphasize the meaningfulness to the company of what the employee is doing; and emphasize support rather than threats.

9-6. **Performance management** is the *continuous* process of identifying, measuring, and developing the performance of individuals and teams and *aligning* their performance with the organization's *goals*. It means continuous interactions and feedback to ensure continuous improvement in the employee's and team's capacity and performance. Most important, it requires remembering that your employee's performance usually reflects more than just whether the person is "motivated."

Discussion Questions

9-1. What is the purpose of a performance appraisal?

9-2. Answer the question, "Who should do the appraising?"

9-3. Discuss the pros and cons of four performance appraisal tools.

9-4. Explain how you would use the alternation ranking method, the paired comparison method, and the forced distribution method.

9-5. Explain in your own words how you would go about developing a behaviorally anchored rating scale.

9-6. Explain the problems to be avoided in appraising performance.

9-7. Compare and contrast performance management and performance appraisal.

Individual and Group Activities

9-8. Working individually or in groups, develop a graphic rating scale for one of the following jobs: secretary, professor, bus driver.

9-9. Working individually or in groups, describe the advantages and disadvantages of using the forced distribution appraisal method for college professors.

9-10. Working individually or in groups, develop, over the period of a week, a set of critical incidents covering the classroom performance of one of your instructors.

9-11. The HRCI *Exam Content Outline* website https://www.hrci.org/docs/default-source/web-files/phr-exam-content-outline.pdf?sfvrsn=13c44f61_28 lists the knowledge someone studying for the HRCI PHR certification exam needs to have in each area of human resource management (such as in Business Management, and in Talent Planning and Acquisition).[133] In groups of several students, do four things: (1) review the *Exam Content Outline* on that website; (2) identify the material in this chapter that relates to the Exam Content Outline's required "Knowledge Of" lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.

9-12. When he was doing his show *The Apprentice*, Donald Trump often told apprentices, "You're fired!" Review archived episodes of Donald Trump's *The Apprentice* and answer this: What performance appraisal system did Mr. Trump use, and do you think it resulted in valid appraisals? What techniques discussed in this chapter did he seem to apply? How would you suggest he might change his appraisal system to make it more effective?

CHAPTER 9

Experiential Exercise

Grading the Professor

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Purpose: The purpose of this exercise is to give you practice in developing and using a performance appraisal form.

Required Understanding: You are going to develop a performance appraisal form for an instructor and should therefore be thoroughly familiar with the discussion of performance appraisals in this chapter.

How to Set Up the Exercise/Instructions: Divide the class into groups of four or five students.

9-13. First, based on what you now know about performance appraisal, do you think Figure 9-1 is an effective scale for appraising instructors? Why or why not?

9-14. Next, your group should develop its own tool for appraising the performance of an instructor. Decide which of the appraisal tools (graphic rating scales, alternation ranking, and so on) you are going to use, and then design the instrument itself.

9-15. Next, have a spokesperson from each group post their group's appraisal tool on the board. How similar are the tools? Do they all measure the same factors? Which factor appears most often? Which do you think is the most effective tool on the board?

9-16. The class should select the top ten appraisal dimensions from all of the appraisal tools presented to create what the class perceives to be the most effective tool for appraising the performance of the instructor.

Application Case

Appraising the Secretaries at Sweetwater U

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Rob Winchester, newly appointed vice president for administrative affairs at Sweetwater State University, faced a tough problem shortly after his university career began. Three weeks after he came on board in September, Sweetwater's president, Rob's boss, told Rob that one of his first tasks was to improve the appraisal system used to evaluate secretarial and clerical performance at Sweetwater U. The main difficulty was that the performance appraisal was traditionally tied directly to salary increases given at the end of the year. Therefore, most administrators were less than accurate when they used the graphic rating forms that were the basis of the clerical staff evaluation. In fact, what usually happened was that each administrator simply rated his or her clerk or secretary as "excellent." This cleared the way for them to receive a maximum pay raise every year.

But the current university budget simply did not include enough money to fund another "maximum" annual raise for every staffer.

Furthermore, Sweetwater's president felt that the custom of providing invalid feedback to each secretary on his or her year's performance was not productive, so she had asked the new vice president to revise the system. In October, Rob sent a memo to all administrators, telling them that in the future no more than half the secretaries reporting to any particular administrator could be appraised as "excellent." This move, in effect, forced each supervisor to begin ranking his or her secretaries for quality of performance. The vice president's memo met widespread resistance immediately—from administrators, who were afraid that many of their secretaries would begin leaving for more lucrative jobs, and from secretaries, who felt that the new system was unfair and reduced each secretary's chance of receiving a maximum salary increase. A handful of secretaries had begun picketing outside the president's home on the university campus. The picketing, caustic remarks by disgruntled administrators, and rumors of an impending slowdown by the secretaries (there were about 250 on campus) made Rob Winchester wonder whether he had made the right decision by setting up forced ranking. He knew, however, that there were a few performance appraisal experts in the School of Business, so he decided to set up an appointment with them to discuss the matter.

He met with them the next morning. He explained the situation as he had found it: The current appraisal system had been set up when the university first opened 10 years earlier. A committee of secretaries had developed it. Under that system, Sweetwater's administrators filled out forms similar to the one shown in Table 9-2. This once-a-year appraisal (in March) had run into problems almost immediately because it was apparent from the start that administrators varied widely in their interpretations of job standards, as well as in how conscientiously they filled out the forms and supervised their secretaries. Moreover, at the end of the first year it became obvious to everyone that each secretary's salary increase was tied directly to the March appraisal. For example, those rated "excellent" received the maximum increases, those rated "good" received smaller increases, and those given neither rating received only the standard across-the-board cost-of-living increase. Because universities in general—and Sweetwater, in particular—have paid secretaries somewhat lower salaries than those prevailing in private industry, some secretaries left in a huff that first year. From that time on, most administrators simply rated all secretaries excellent in order to reduce staff turnover, thus ensuring each a maximum increase. In the process, they also avoided the hard feelings aroused by the significant performance differences otherwise highlighted by administrators.

Two Sweetwater experts agreed to consider the problem, and in two weeks they came back to the vice president with the following recommendations. First, the form used to rate the secretaries was grossly insufficient. It was unclear what "excellent" or "quality of work" meant, for example. They recommended instead a form like that in Figure 9-2. In addition, they recommended that the vice president rescind his earlier memo and no longer attempt to force university administrators to arbitrarily rate at least half their secretaries as something less than excellent. The two consultants pointed out that this was unfair, since it was quite possible that any particular administrator might have staffers who were all or virtually all excellent—or conceivably, although less likely, all below standard. The experts said that the way to get all the administrators to take the appraisal process more seriously was to stop tying it to salary increases. In other words, they recommended that every administrator fill out a form as in Figure 9-2 for each secretary at least once a year and then use this form as the basis of a counseling session. Salary increases would have to be made on some basis other than the performance appraisal, so that administrators would no longer hesitate to fill out the rating forms honestly.

Rob thanked the two experts and went back to his office to ponder their recommendations. Some of the recommendations (such as substituting the new rating form for the old) seemed to make sense. Nevertheless, he still had serious doubts as to the efficacy of any graphic rating form, particularly compared with his original, preferred forced ranking approach. The experts' second recommendation—to stop tying the appraisals to automatic salary increases—made sense but raised at least one very practical problem: If salary increases were not to be based on performance appraisals, on what were they to be based? He began wondering whether the experts' recommendations weren't simply based on ivory tower theorizing.

Questions

9-17. Do you think that the experts' recommendations will be sufficient to get most of the administrators to fill out the rating forms properly? Why or why not? What additional actions (if any) do you think will be necessary?

9-18. Do you think that Vice President Winchester would be better off dropping graphic rating forms, substituting instead one of the other techniques we discussed in this chapter, such as a ranking method? Why or why not?

9-19. What performance appraisal system would you develop for the secretaries if you were Rob Winchester? Defend your answer.

Continuing Case

Carter Cleaning Company

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The Performance Appraisal

After spending several weeks on the job, Jennifer was surprised to discover that her father had not formally evaluated any employee's performance for all the years that he had owned the business. Jack's position was that he had "a hundred higher-priority things to attend to," such as boosting sales and lowering costs, and, in any case, many employees didn't stick around long enough to be appraisable anyway. Furthermore, contended Jack, manual workers such as those doing the pressing and the cleaning did periodically get positive feedback in terms of praise from Jack for a job well done, or criticism, also from Jack, if things did not look right during one of his swings through the stores. Similarly, Jack was never shy about telling his managers about store problems so that they, too, got some feedback on where they stood.

This informal feedback notwithstanding, Jennifer believes that a more formal appraisal approach is required. She believes that there are criteria such as quality, quantity, attendance, and punctuality that should be evaluated periodically even if a worker is paid on piece rate. Furthermore, she feels quite strongly that the managers need to have a list of quality standards for matters such as store cleanliness, efficiency, safety, and adherence to budget on which they know they are to be formally evaluated.

Questions

9-20. Is Jennifer right about the need to evaluate the workers formally? The managers? Why or why not?

9-21. Develop a performance appraisal method for the workers and managers in each store.

Translating Strategy into HR Policies and Practices Case*,§

**The overall strategy map on the inside back cover of this text outlines the relationships involved.*

Improving Performance at the Hotel Paris

The New Performance Management System

The Hotel Paris's competitive strategy is "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate appraisal policies and activities that support this competitive strategy, by eliciting the required employee behaviors and competencies.

Lisa knew that the Hotel Paris's performance appraisal system was inadequate. When the founders opened their first hotel, they went to an office-supply store and purchased a pad of performance appraisal forms. The hotel chain used these. Each form was a two-sided page. Supervisors indicated whether the employee's performance in terms of various standard traits including quantity of work, quality of work, and dependability was excellent, good, fair, or poor. Lisa knew that, among other flaws, this appraisal tool did not force either the employee or the supervisor to focus the appraisal on the extent to which the employee was helping the Hotel Paris to achieve its strategic goals. She wanted a system that focused the employee's attention on taking those actions that would contribute to helping the company achieve its goals, for instance, in terms of improved customer service.

Both Lisa and the firm's CFO were concerned by the current disconnect between (1) what the current appraisal process was focusing on and (2) what the company wanted to accomplish in terms of its strategic goals. They wanted the firm's new performance management system to help breathe life into the firm's strategic performance, by focusing employees' behavior specifically on the performances that would help the Hotel Paris achieve its strategic goals.

Lisa and her team created a performance management system that focused on both competencies and objectives. In designing the new system, their starting point was the job descriptions they had created for the hotel's employees. These descriptions each included required competencies. Consequently, using a form similar to Figure 9-4, the front-desk clerks' appraisals now focus on competencies such as "able to check a guest in or out in 5 minutes or less." Most service employees' appraisals include the competency, "able to exhibit patience and guest support of this even when busy with other activities." There were other required competencies. For example, the Hotel Paris wanted all service employees to show initiative in helping guests, to be customer oriented, and to be team players (in terms of sharing information and best practices). Each of these competencies derives from the hotel's aim of becoming more service oriented. Each employee now also receives one or more strategically relevant objectives for the coming year. (One, for a housecleaning crewmember, said, "Martha will have no more than three room cleaning infractions in the coming year," for instance.)

In addition to the goals and competencies-based appraisals, other Hotel Paris performance management forms laid out the development efforts that the employee would undertake in the coming year. Instructions also reminded the supervisors that, in addition to the annual and semiannual appraisals, they should continuously interact with and update their employees. The result, Lisa and her colleagues hoped, was a comprehensive performance management system: The supervisor appraised the employee based on goals and competencies that were driven by the company's strategic needs. And, the actual appraisal resulted in new goals for the coming year, as well as in specific development plans that made sense in terms of the company's and the employees' needs and preferences.

Questions

9-22. Choose one job, such as front-desk clerk. Based on any information you have (including job descriptions you may have created in other chapters), write a list of duties, competencies, and performance standards for that chosen job.

9-23. Based on that, and on what you read in this Dessler, *Human Resource Management*, chapter, create a performance appraisal form for appraising that job.

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CHAPTER 9

Writing Assignments

9-24. Discuss the pros and cons of using different potential raters to appraise a person's performance.

9-25. As a new supervisor, you're about to hold your first-ever appraisal interview with one of your subordinates, someone who has not been performing very well for the past 6 months. What should you keep in mind about managing the appraisal interview as you begin the conversation?

Key Terms

performance appraisal, 269
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unclear standards, 283
halo effect, 283
central tendency, 283
strictness/leniency, 283
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10 Managing Careers and Retention

WHERE ARE WE NOW . . .

Having invested in selecting, training, and appraising employees, the employer of course wants them to want to stay with the firm. The main purpose of this chapter is to address several employee career-related issues, including employee turnover and retention methods, managing one's career, and how to manage dismissals. The main topics we'll address are **Career Management; Employee Engagement Guide for Managers; Managing Employee Turnover and Retention; Employee Life-Cycle Career Management;** and **Managing Dismissals.**

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

10-1 **Discuss** what employers and supervisors can do to support employees' career development needs.

10-2 **Explain** why career development can improve employee engagement.

10-3 **Describe** a comprehensive approach to retaining employees.

10-4 **List and briefly explain** the main decisions employers should address in reaching promotion and other employee life-cycle career decisions.

10-5 **Explain** each of the main grounds for dismissal.

Medtronic is a global medical technology company, with more than 85,000 employees around the world. When the new CEO took over, his strategy involved speeding the growth of the company's medical tech products.[1] To fit his strategy, he reorganized Medtronic into separate operating units for each product line. And, he pushed decision making down to lower-level managers and employees. To succeed, his strategy required getting the best that his employees could offer. We'll see what he did.

LEARNING OBJECTIVE 10-1

Discuss what employers and supervisors can do to support employees' career development needs.

Career Management

After appraising performance, it's often necessary to address career-impacting matters with the subordinate. These matters may include, for instance, promotions, retirements, and dismissals.

Increasingly, they also include helping employees clarify their career plans.[2] Why would employers involve themselves in their employees career plans? They do it because hopefully everyone gains—the employees with more fulfilling careers, and the employer with improved employee relations, engagement, and retention. We'll address career planning, as well as promotions, retention, retirement, and dismissals in this chapter.

We may define **career** as the occupational positions a person holds over the years. **Career management** is the process for enabling employees to better understand and develop their career skills and interests, and to use these skills and interests most effectively both within the company and after they leave the firm. **Career development** is the lifelong series of activities (such as workshops) that contribute to a person's career exploration, establishment, success, and fulfillment. **Career planning** is the deliberate process through which someone becomes aware of personal skills, interests, knowledge, motivations, and other characteristics; acquires information about career opportunities and choices; identifies career-related goals; and establishes action plans to attain specific goals.

career
The occupational positions a person has had over many years.

career management
The process for enabling employees to better understand and develop their career skills and interests, and to use these skills and interests more effectively.

career development
The lifelong series of activities that contribute to a person's career exploration, establishment, success, and fulfillment.

career planning
The deliberate process through which someone becomes aware of personal skills, interests, knowledge, motivations, and other characteristics and establishes action plans to attain specific goals.

HR in Action at the Hotel Paris If the Hotel Paris wanted satisfied guests, they had to have engaged employees who did their jobs as if they owned the company, even when the supervisor was nowhere in sight. But for the employees to be engaged, Lisa knew the Hotel Paris had to make it clear that the company was also committed to its employees. The case at the end of this chapter explains what they did.

Careers Today

People once viewed careers as a sort of upward stairway from job to job, more often than not with one or a few firms. Today, many people still move up, but many find themselves having to reinvent themselves. For example, the sales rep, laid off by a publishing firm that's just merged, may reinvent her career as an account executive at a media-oriented advertising firm.[3] Similarly, what people want from their careers is changing. Baby boomers—many of whom are already retiring—tended to be job and employer-focused. People entering the job market today often covet more opportunities for balanced work–family lives.

The Psychological Contract

One implication is that what employers and employees expect from each other is changing. What the employer and employee expect of each other is part of what psychologists call a *psychological contract.* This is "an unwritten agreement that exists between employers and employees."[4] It identifies each party's mutual expectations. For example, the unstated agreement is that management will treat employees fairly and provide satisfactory work conditions, hopefully in a long-term relationship. Employees are expected to respond "by demonstrating a good attitude, following directions, and showing loyalty to the organization."[5]

The problem is that with today's labor markets, neither employers nor employees can count on long-term commitments. That changes the psychological contract. It also makes career management more critical for the employee, who may have to prepare for the time to move on.

The Employee's Role in Career Management

The employee, the manager, and the employer all have roles in the employee's career development. For example, the manager should provide objective performance feedback, offer developmental assignments and support, and have career progress and development discussions with the employee. The manager should also act as a coach, appraiser, advisor, and mentor, listening to the employee's career plans, and linking the employee to organizational resources and career options. For its part, the employer can provide career-oriented training, development, and promotional opportunities, and offer career information and programs.

THE EMPLOYEE'S RESPONSIBILITIES However ultimately, employees are responsible for their own careers. Each must assess interests, skills, and values; seek out career information resources; and take steps to ensure a happy and fulfilling career. For employees, career planning means matching individual strengths and weaknesses with occupational opportunities and threats. In other words, the person wants to pursue occupations, jobs, and a career that capitalize on their interests, aptitudes, values, and skills. And, the person wants to choose occupations, jobs, and a career that make sense in terms of future demand. Ideally, the person will think through an ideal future "self" to strive for.[6]

As one example, career-counseling expert John Holland says that personality (including values, motives, and needs) is an important career choice determinant. For example, a person with a strong social orientation might be attracted to careers that entail interpersonal rather than intellectual or physical activities and to occupations such as social work. Holland found six basic personality types or orientations. Individuals can use his Self-Directed Search (SDS) test (available online at www.self-directed-search.com) to assess their occupational orientations and preferred occupations. The SDS has an excellent reputation. On the other hand, one study of 24 no-cost online career assessment websites concluded that they were easy to use but suffered from insufficient validation and confidentiality. However, a number of online career assessment instruments such as Career Key (www.careerkey.org) do reportedly provide validated information.[7] O*NET offers a free online "My Next Move" career assessment system (www.onetcenter.org/mynextmove.html). You will find other useful career tools in the following two exercises, and in this chapter's appendix.

EXERCISE 1 One exercise for identifying occupational skills is to head a page "The School or Occupational Tasks I Most Enjoyed Doing." Then write a short essay describing the tasks. Provide as much detail as you can about your duties and responsibilities, and what you found enjoyable about each task. (It's not necessarily the most enjoyable *job* you've had, but the most enjoyable *task* you've had to perform within your jobs.) Next, on other pages, do the same thing for two other tasks. Now scrutinize the three essays. Underline the skills that you mentioned the most often. For example, did you especially enjoy the hours you spent on the Internet doing research when you worked one summer as an intern?[8]

EXERCISE 2 Another exercise may prove enlightening. On a page, answer the question: "If you could have any kind of job, what would it be?" Invent your own job if need be, and don't worry about what you *can* do—just what you want to do.[9]

"Portfolio" Careers

portfolio careers
Careers based on using one's skills to create a livelihood from multiple income sources, often from several jobs paying different rates.

More people today are embracing **portfolio careers**, careers based on using one's skills to create a livelihood from multiple income sources, often from several jobs paying different rates.[10] For example, someone might use her marketing skills for temporary marketing manager gigs, her writing and marketing skills to write a column and blog, and her coaching skills to teach online courses. (Career experts also use the term "New Career" to describe self-directed careers built on job flexibility and labor market mobility).[11]

ARE PORTFOLIO CAREERS FOR YOU? Millions of people support themselves through portfolio careers. Each is probably doing so for his or her own reasons. These may range from wanting to be independent, to not finding a full-time job, to needing flexibility for family matters.

DO YOU HAVE WHAT IT TAKES TO DO THIS? For example, are you comfortable not having the same job to go to every day? Are you good at juggling several different big tasks? Do you have the social and sales skills to line up a continually changing cast of clients? And of course, what saleable skills do you have for which someone will pay you?

IS IT PRACTICAL? Think it through. Ask yourself who your potential clients are, how much you might earn, and what the odds are you'll be able to put it together. Discuss your ideas with friends, and talk with them about which ideas seem more likely to succeed. (On the other hand, "nothing ventured, nothing gained," so don't be too practical. One benefit of portfolio careers is that you can adjust as you learn.)

The Employer's Role in Career Management

The person's employers and manager have important roles to play.[12] For example, before hiring, *realistic job interviews* can help prospective employees gauge if the job is a good fit. Especially for recent college grads, *the first job* is important for building a realistic picture of what the person can and cannot do: providing *challenging first jobs* and having an *experienced mentor* are therefore important. (Some refer to this as preventing **reality shock**, which occurs when a new employee's high expectations confront the reality of an unchallenging job).

reality shock
Results of a period that may occur at the initial career entry when the new employee's high job expectations confront the reality of a boring or otherwise unattractive work situation.

Periodic *job rotation* can help the person develop a more realistic picture of strengths and weaknesses. As one example, Intuit offers new graduates participation in Rotational Development Programs.[13] In these 2-year programs, employees first learn about Intuit's products, customers, employees, strategies, and values. Next they complete four 6-month rotations. Here they get experience in a range of Intuit business units such as product management, marketing, and human resources. Intuit pairs Rotational Development Program participants with an executive advisor, who provides coaching and mentoring.

Finally, once the person has been on the job for some time, *career-oriented appraisals* are important. Here the manager appraises the employee, and uses the results to help the person match his or her strengths and weaknesses with feasible career paths.

Illustrative Employer Career Management Activities

Most employers make some effort to help employees improve their careers. For example, American Express opened several *career counseling centers* for its call-center workers; AFLAC hired *career counselors* and trained managers to give career advice.[14] Google employees can volunteer as *career coach/mentors* for other employees.[15]

Self-help e-learning tools are one of the most popular employer-provided career services.[16] Employees use the self-help tools to work through career information and instructional resources.[17] The National Career Development Association provides directions to online career tools, including interest surveys and career assessment programs.[18]

A *career planning workshop* is a "planned learning event in which participants complete career planning exercises and inventories and participate in career skills practice sessions."[19] A typical workshop includes self-assessment exercises (skills, interests, values, and so on), discussions of occupational trends, and goal-setting and action-planning.

Either as part of a workshop or when specially retained, *career coaches* generally help employees create 2- to 5-year plans; these show where their careers with the firm may lead. The employer and employee then formulate development plans for what the person needs to move up.[20]

Most employers necessarily accumulate a lot of data on their employees, such as jobs held in the past, and on appraisals, training, and skills.[21] Many use *AI and data analytics* to predict how current employees would fit the job requirements of particular roles, and to identify possible career paths for them.

However, career planning needn't be complicated. Even just receiving performance feedback from supervisors, and getting development plans and access to training is helpful. Beyond that, job posting systems, mentoring, and individual succession planning for high-potential employees are valuable. Career *roadmaps* are plans, developed with the employer's support, for getting to the next steps along the employee's career path. The roadmap includes opportunities to acquire the skills and experiences required to move up.[22]

People with disabilities tend to have less career success than do those without disabilities.[23] Some barriers may be self-imposed. For instance, some with disabilities may

have lower career expectations, or may not proactively seek the accommodations they are due under EEO law. But the problem more often reflects unfortunate assumptions by managers and coworkers. Though well meaning, they may erroneously view those with disabilities as unable to perform various jobs. They may also assume that jobs designed for those without disabilities are inappropriate for those with disabilities. Supervisors should be trained to avoid such blatant misconceptions.

The Strategic Context: Career Development at Medtronic[24]

Medtronic is a global medical technology company with more than 85,000 employees around the world. Designing, producing, and marketing sophisticated medical devices like pacemakers requires highly trained employees even under the best of conditions. The new CEO's growth strategy makes it even more important to have employees who can stay at the leading edge.

Medtronic therefore offers a wide range of career planning and development support tools aimed at helping employees understand their occupational strengths and weaknesses and reach their potential. These tools include: customized development plans; self-assessment and feedback tools; mentoring programs; comprehensive on-site classes covering business, engineering, and science topics; tuition reimbursement scholarships; and online job listings so employees can seek new opportunities within Medtronic.

In addition, new MBA employees can participate in Medtronic's corporate Leadership Development Rotation Program. This is a 2- to 3-year program. It includes 12- to 18-month assignments in two different geographic locations. This provides participants with both a broad understanding of Medtronics, and in-depth functional experiences. Functional tracks include clinical, corporate development, finance, and human resources, for instance.

In addition to their job assignments, participants engage in other developmental experiences, including peer mentoring programs, functional training, and leadership workshops. At Medtronic, a comprehensive set of career management programs helps produce the employee skills and behaviors the company needs to achieve its high-tech growth strategy.

The Manager as Mentor and Coach

Do not underestimate the impact that a supervisor can have on his or her employee's career development. With little or no additional effort than realistic performance reviews and candid career advice, a competent supervisor can help the employee get on and stay on the right career track. At the other extreme, an unsupportive supervisor may look back on years of having inhibited employees' careers. In a study of world-class leaders, one researcher says that his big surprise was the extent to which they engaged in "ongoing, intensive one-on-one tutoring" of their subordinates.[25]

The manager can do several things to support subordinates' career development needs. When the subordinate first starts, help the person develop the skills required to do the job well. Schedule regular performance appraisals, and address whether the person's skills and performance are consistent with his or her career aspirations. Ask questions such as "In terms of career, what are you interested in doing, in both the short- and long-term?"[26] Provide the employee with at least an informal development plan like that in Figure 10-1. Keep subordinates informed about the firm's current career-related benefits, and encourage them to use them.[27]

mentoring
Advising, counseling, and guiding.

Here the manager may act as mentor. **Mentoring** means having experienced senior people advising, counseling, and guiding employees' career development. An employee who agonizes over which career to pursue or how to navigate office politics may need mentoring.

Mentoring can be formal or informal. Informally, mid- and senior-level managers may voluntarily help less-experienced employees—for instance, by giving them career advice and helping navigate office politics. Many employers also have formal mentoring programs. Here the employer may pair protégés with potential mentors, and provide training to help mentor and mentee better understand their respective responsibilities. Having a mentor give career-related guidance can enhance one's career satisfaction and success.[28]

Employee's Name	Employee's Current Position	Today's Date

I Performance Summary: *Briefly discuss this employee's performance over the past year (or other period), in terms of his or her achievement of assigned goals, effectiveness at interacting with colleagues, and any other criteria you believe are relevant here:*
II Strengths: *Based on your evaluation and experience with and discussions with employee, what would you say are his or her main strengths?*
III Career Aspirations and Goals: *Based on your experience with and discussions with employee, what would the two of you agree should be this person's career goals over the next 1-3 years and beyond?*
IV Areas for Development: *Based on what you know about this employee, what would the two of you agree are the main areas for development he or she should concentrate on over the next year or two?*

Development Objectives and Activities: *Planned to achieve this person's career goals.*

Development Activities	Specific Action Plans	Milestones/Dates
1		
2		
3		
4		
5		

Signatures: Supervisor_____ Employee_____

FIGURE 10-1 Employee Career Development Plan

Source: Copyright Gary Dessler, PhD.

coaching
Educating, instructing, and training subordinates.

For supervisors, mentoring is both valuable and risky. It is valuable insofar as you can influence the careers of subordinates and colleagues. The danger is that it can backfire. **Coaching** usually focuses on teaching daily tasks that your subordinate can easily relearn; therefore coaching's downside is usually limited. *Mentoring* focuses on relatively hard-to-reverse career issues, and often touches on the person's

psychology (motives, and how one gets along with others, for instance). Because the supervisor is usually not a psychologist or trained career advisor, caution is required in the mentoring advice one gives.

THE BEST MENTORS Research on what supervisors can do to be better mentors reveals few surprises. Effective mentors *set high standards*, are willing to *invest the time* and effort the mentoring relationship requires, and actively *steer protégés* into important projects, teams, and jobs. They *model* the right behaviors and *motivate and inspire* those they're mentoring.[29] Effective mentoring requires *trust*, and the level of trust reflects the mentor's *professional competence, consistency, ability to communicate*, and readiness to *share control*. It also requires that both parties *clarify their expectations* for what the mentoring is to achieve.[30]

Studies suggest that mentoring is sometimes less effective for women than it is for men.[31] Some employers therefore assign female employees to mentors who have more organizational clout. For example, when Deutsche Bank discovered that several female managing directors had left the firm for competitors, it began pairing them with mentor/sponsors from the bank's executive committee. The latter were in a position to advocate the women for promotion.

At one meeting of corporate and political leaders in Davos, Switzerland, a few leaders expressed concerns that working with female mentees might trigger adverse #MeToo-type consequences.[32] However, others noted that it's not mentees but some mentors that cause problems. Those who are "clueless, creepy or criminal" should be coached or removed from mentoring.

LEARNING OBJECTIVE 10-2

Explain why career development can improve employee engagement.

Employee Engagement Guide for Managers

Career Management

As mentioned earlier, labor market turbulence has understandably prompted many people to ask why they should be loyal to their employers. "Why," they might ask, "should I be loyal to you if you're just going to dump me when you decide to cut costs again?" So many employees quit during the pandemic that labor gurus called it the "Great Resignation." (Average monthly quit rates rose from about 2.4% in 2019 to 2.9% two years later.)[33] This all prompted employers to ask how they're going to maintain employee engagement under such conditions.

Career Development Paths

Given the importance to most people of a fulfilling and successful career, career planning and development can play an important role in employee engagement. Managed effectively, the employer's career development process should show that the employer cares about the employee's career success. As mentioned earlier, this needn't be complicated. For example, with *career-oriented appraisals*, the supervisor and employee jointly merge the latter's past performance, career preferences, and developmental needs into a formal career plan.

career path
A structured sequence of job assignments through which a person progresses in an organization.

Creating a *career path* is part of this. A **career path** is a structured sequence of job assignments through which a person progresses in an organization.[34] Before a series of tumultuous management changes sidelined the process, JCPenney routinely created such career paths for many of its employees.

Prior to the annual appraisal, the associate and manager reviewed Penney's "career grid." The grid listed all JCPenney supervisory positions (grouped by operation jobs, merchandise jobs, personnel jobs, and general management jobs); it included specific job titles such as "regional catalog sales manager."

The grid also identified possible promotional paths or routes. For example, when considering the next assignment for a management associate, the supervisor could consider not only merchandise positions but also operations and personnel positions. Similarly, a senior merchandising manager might be projected for promotion to either assistant buyer or general merchandise manager. Penney's

grid approach enabled Penney's to combine career-oriented appraisals with career pathing, to create career plans for its employees (and assumedly more engaged employees).[35]

LEARNING OBJECTIVE 10-3

Describe a comprehensive approach to retaining employees.

Managing Employee Turnover and Retention

Not all employees' career plans will coincide with the company's needs. *Turnover*—the rate at which employees leave the firm—varies markedly among industries. For example, annual voluntary turnover in the accommodation and food services industry is about 70%, with more than half the industry's employees leaving each year. In contrast, voluntary turnover in educational services is about 14%.[36]

Furthermore, such figures only reflect employees who leave voluntarily. They don't include involuntary separations, such as for poor performance.[37] Combining voluntary and involuntary turnover produces some astounding statistics. For example, the turnover in many food service firms is around 86% per year.[38] In other words, many restaurants need to replace almost all their employees every year. Turnover is expensive, as the HR as a Profit Center discussion shows.

HR AS A PROFIT CENTER

Turnover and Performance

What is the link between turnover and organizational performance? One study analyzed the costs of turnover in a call center with 31 agents and 4 supervisors.[39] Tangible costs associated with an agent's leaving included the costs of recruiting, screening, interviewing, and testing applicants, as well as the cost of wages while the new agent was oriented and trained. Intangible costs included the cost of lost productivity for the new agent (who is less productive at first), the cost of rework for the new agent's errors, and the supervisory cost for coaching the new agent. The researchers estimated the cost of an agent leaving at about $21,551. This call center averaged 18.6 vacancies per year (about a 60% turnover rate). Therefore, the researchers estimated the total annual cost of agent turnover at $400,853. Taking steps to cut this turnover rate in, say, half could save this firm about $200,000 per year. We will see that HR practices such as improved testing and selection can influence turnover, and therefore impact a company's profitability. ■

Reducing turnover requires identifying and managing the reasons for both voluntary and involuntary turnover.[40] We address managing voluntary turnover here and managing involuntary turnover later in the chapter.

Managing Voluntary Turnover

In reducing turnover, the logical place to start is by measuring the number of employees (particularly top performers and high potentials) who leave the company.[41] SHRM recommends computing turnover as follows: "First calculate turnover for each month by dividing the number of [voluntary] separations during the month by the average number of employees during that month and multiplying by 100. Then calculate the annual turnover rate by adding the 12 months of turnover percentages together."[42]

However, identifying *why* employees voluntarily leave isn't so easy. People dissatisfied with their jobs are more likely to leave, but the sources of dissatisfaction are many. In one survey, the five top reasons that top-performing employees gave for leaving (ranked from high to low) were pay, promotional opportunities, work–life balance, career development, and healthcare benefits.[43] Another survey based on exit interviews found the top five reasons employees left were career development (22%), work–life balance (12%), management behavior (11%), compensation and benefits (9%), and well-being (9%).[44] Of those who left due to "career development," most said they didn't like the work they were doing; others blamed lack of growth.[45] Other reasons employees leave include unfairness, not having their voices heard, and lack of recognition.[46]

One study found that pay has a more important influence on turnover than it did 20 years ago, but that other factors are very important.[47] These include training or promotional opportunities; noncash benefits and bonuses; one's supervisor; and workplace climate. The study notes that "employees [often] quit bosses, not jobs," and flee toxic work environments. This underscores the importance of supervisor training, and of promotional opportunities. It also helps explain why companies like Alphabet use surveys and AI to monitor employee attitudes about the company and its supervision.

Practical considerations also affect turnover. For example, high unemployment reduces voluntary turnover, and some locales have fewer job opportunities (and thus turnover). Furthermore, losing low-performing employees isn't as problematic as losing high-performing ones. The restaurant chain Applebee's gives managers incentives for reducing turnover of top-performing employees.[48]

Furthermore, bias can drive turnover. One study involved 228 employers and employees. The researchers concluded that some leaders viewed new hires from racially underrepresented groups as having less potential than their White counterparts.[49] That led the new hires to be less optimistic about their own abilities and future with the firm, and to be more likely to quit.

REDUCING TURNOVER In any case, given the many things prompting employees to leave, what can one do to reduce voluntary turnover? The manager should understand that retaining employees is a talent management issue, and that the best retention strategies are therefore multifunctional. For example, employees who aren't interested in their jobs, sense that they're not suited for their jobs, or feel undercompensated are more likely to leave. Employers can address such issues only by instituting effective and coordinated talent management (recruitment, selection, training, appraisal, and compensation) practices. Put another way, turnovers (both voluntary and involuntary) often start with poor selection decisions, compounded by inadequate training, insensitive appraisals, and inequitable pay. Trying to formulate a "retention strategy" without considering all HR practices is futile.

A Comprehensive Approach to Retaining Employees

However, identifying problems is an important first step. Effectively conducted *exit interviews* provide useful insights into turnover problem areas. Many employers routinely administer *attitude surveys* to monitor employees about matters such as supervision and pay. Sometimes simply asking, "All things considered, how satisfied are you with your job?" can be as effective as soliciting employees' attitudes toward various facets of the job (such as supervision and pay).[50] Open-door policies and anonymous "*hotlines*" help management identify and remedy morale problems.

Usually conducted by the employee's manager, the aim of a *stay interview* is to head off retention problems by finding out "how the employee is doing." Typical questions include, "When you travel to work each day, what are you looking forward to?" and "How can I best support you?" Unlike anonymous group surveys, stay interviews are one on one, and reportedly provide useful information for reducing turnover and improving engagement.[51] Sometimes, analyzing the situation leads to simple solutions. Walmart discovered it could significantly reduce voluntary turnover by providing very *realistic previews* about the job's demands and work hours.[52]

Then, having identified potential problems, the employer can take steps like the following to boost employee retention.

RAISE PAY The most obvious explanation for why employees quit is often also the correct one: low pay. Particularly for high performers and key employees, enhanced pay has been the retention tool of choice for many employers.[53]

DIGITAL TOOLS Digital tools can improve employee retention. SAS's employee-retention program sifts through employee data on traits like skills, tenure, performance, education, and friendships. It can predict which high-value employees are more likely to quit soon, and to try to prevent that.[54] Alliant Techsystems created a statistical

"flight risk model," to calculate the probability an employee would leave and to take corrective action.[55] Google's "Googlegeist" survey contains five questions for identifying Googlers who are more likely to leave; if a team's responses fall below 70% favorable, Google takes corrective action.[56]

HIRE SMART "Retention starts up front, with the selection and hiring of the right employees."[57] This refers not just to the worker but also to hiring the right supervisors. For example, FedEx conducts periodic employee attitude surveys. The supervisor then meets to review the results with his or her employees to address any leadership problems the surveys raise.

DISCUSS CAREERS One expert says, "Professionals who feel their company cares about their development and progress are much more likely to stay."[58] Periodically discuss with employees their career preferences and prospects, and help them lay out career plans.[59]

PROVIDE DIRECTION People can't do their jobs if they don't know what to do or what their goals are. Therefore, retaining employees requires making it clear what your expectations are regarding their performance and what their responsibilities are.

OFFER FLEXIBILITY In one survey, workers identified "flexible work arrangements" and "telecommuting" as the two top benefits that would encourage them to choose one job over another.

USE HIGH-PERFORMANCE HR PRACTICES In one study, call centers that made more use of high-involvement work practices (such as employee empowerment, problem-solving groups, and self-directed teams) had lower rates of quits, dismissals, and total turnover. So did those that "invested" more in employees (for instance, in terms of high relative pay, pensions, and full-time jobs).[60]

COUNTEROFFER? If a valued employee is leaving, should you make a counteroffer? Many argue against doing so, calling it a "Band-Aid for a head wound."[61] Employers who do allow counteroffers need a policy that specifies what people and positions are eligible for counteroffers, allowable compensation enhancements, and how to determine the offer.[62]

The New Normal box explains another way to retain employees.

THE NEW NORMAL

COVID-19, Stress, and Turnover

Turnover jumped early in the pandemic, and job search behavior changed.[63] There was a big increase in job applications, particularly for work-from-home jobs.

Although "more job opportunities" explain some of the turnover, much of it reflected increased stress. Job stress rose markedly for most workers, but particularly among those interacting with guests, patients, and clients. For example, for many hospitality employees, the pandemic was traumatic.[64] For them COVID not only posed an infection risk; it also made their jobs more insecure, because their employers might close.

Many workers also had to deal with other COVID-related challenges at work. For example, work became more stressful as coworkers failed to show up. Some hotel workers had to deal with what they felt were unethical hotel labor practices, such as reductions in their welfare benefits.[65] Nurses' turnover rose largely because of how the pandemic impacted their work life and psychological well-being.[66]

For employees who could work from home, it's not surprising that opportunities for teleworking were a key to reducing intentions to quit, and increasing work engagement.[67] Reducing job stress was thus just one option for employers trying to keep employees. ■

Job Withdrawal

Unfortunately, voluntary turnover is just one way that employees withdraw. Withdrawal in general means separating oneself from one's current situation—it's a means of escape for someone who is dissatisfied or fearful. At work, *job withdrawal* has been defined as "actions intended to place physical or psychological distance between employees and their work environments."[68]

Absences and voluntary turnover are two obvious types of job withdrawal. Others can be less obvious if no less corrosive. Some examples include "taking undeserved work breaks, spending time in idle conversation and neglecting aspects of the job one is obligated to perform."[69] Other employees stop "showing up" mentally ("psychological withdrawal"), perhaps daydreaming at their desks while productivity suffers.[70] The employee is there, but mentally absent. Recently, the phrase "quiet quitting" has attracted attention; it generally refers to rebalancing one's work and non-work life lives, by reducing one's work efforts to that minimally required to get the job done satisfactorily. Critics say it's more a step towards quitting on one's career.[71] (Showing up and doing the minimum is one thing, not showing up at all is something else. Employers use the term *job abandonment* to refer to not showing up for several days without notice, generally with no intention of returning.)[72]

In any case, the *job withdrawal process* tends to be incremental, often evolving from daydreaming to absences to quitting: "When an employee perceives that temporary withdrawal will not resolve his/her problems, then the employee is apt to choose a more permanent form of withdrawal (i.e., turnover, assuming that alternative work opportunities are available)."[73]

Studies confirm the high costs of job withdrawal, so understanding its causes is important.[74] Many people have experienced the desire to withdraw—to "get away" from some situation. It's therefore not difficult to empathize with those who feel they must escape. Some think of it in terms of pain versus pleasure. People tend to move toward situations that make them feel good, and away from those that make them feel bad.[75] People are repelled by situations that produce unpleasant, uncomfortable emotions, and are attracted to those that produce pleasant, comfortable ones.[76]

REDUCING JOB WITHDRAWAL The manager can therefore think of withdrawal-reducing strategies in terms of reducing the job's negative effects, and/or of raising its positive ones. Because potential negatives and positives are virtually limitless, addressing withdrawal problems again requires a comprehensive human resource management approach.[77]

Illustrative potential negatives include, for instance, boring jobs, poor supervision, low pay, bullying, lack of career prospects, and poor working conditions. Employee withdrawal is also more likely in "dirty work" jobs. These include jobs that are "physically disgusting," as well as those that entail tasks that undermine one's dignity or go counter to one's moral inclinations.[78] Interviews, surveys, and observation can help identify issues to address.

Potential positives include job enrichment, supportive supervision, equitable pay/family-friendly benefits, disciplinary/appeals processes, career development opportunities, safe working conditions, and high-morale colleagues.[79]

With more employees taking their jobs home, employee "detachment" (not withdrawal) isn't always a bad thing. Two researchers found detaching oneself from work improves family life. They advise working out a system for ensuring some quality family time. For example, the employee and his or her partner might "agree on certain rules such as keeping the weekend free of work, or switching off the mobile phone after dinner."[80]

LEARNING OBJECTIVE 10-4

List and briefly explain the main decisions employers should address in reaching promotion and other employee life-cycle career decisions.

Employee Life-Cycle Career Management

An employee's tenure with a firm tends to follow a life cycle, from employment interview to first job, promotion, transfer, and perhaps retirement. We'll look here at the latter three.

Making Promotion Decisions

promotion
Advancement to a position of increased responsibility.

Promotions traditionally mean advancements to positions of increased responsibility.

Promotions are important. They're obviously a good way to reward performance. Furthermore, hiring outsiders has become more expensive. By one estimate, it now costs about 36% more to hire new employees than it did a few years ago. (This is partly due to more job openings, and partly because the labor supply shrank for several years). The bottom line is that employers need well-thought-out promotion practices and policies. For example, unfairness or secrecy about why people get promoted can devalue the promotion process. An effective promotion strategy therefore includes effective promotion from within systems and practices, making more promotions available, and ensuring that employees are aware of the company's job openings.[81]

Also address how to handle those *not* promoted.[82] In one study, military officer training candidates *not* promoted were more likely to engage in counterproductive work behaviors than were those who were promoted.

Know Your Employment Law: Establish Clear Guidelines for Managing Promotions

In general, promotion processes must comply with all the same antidiscrimination laws as do procedures for recruiting and selecting employees or any other HR actions. For example, Title VII of the 1964 Civil Rights Act covers any "terms, conditions, or privileges of employment." Similarly, under the Age Discrimination in Employment Act of 1967, "covered employers may not select individuals for hiring, promotion, or reductions in force in a way that unlawfully discriminates on the basis of age."[83]

The employer should establish safeguards to ensure that promotion decisions don't prompt discrimination claims, or claims of retaliation, as many do. For example, the Fifth U.S. Circuit Court of Appeals allowed a woman's claim of retaliation to proceed when she showed that she was turned down for promotion because a supervisor she had previously accused of sexual harassment persuaded her current supervisor not to promote her.[84]

One way to defend against such claims is to make sure promotion procedures are clear and objective. For example, the Eighth U.S. Circuit Court of Appeals held that a company's failure to set objective guidelines and procedures for promoting employees may suggest employment discrimination.[85] (In this case, the court found that the organization, a community college, did not consistently use the same procedures for hiring and promotions, and did not clarify when and under what conditions vacant positions were announced.) In another case, the employer turned down a 61-year-old employee for a promotion because the person who interviewed him said he did not "get a real feeling of confidence" from the candidate.[86] In this case, "the court made it clear that while subjective reasons can justify adverse employment decisions, an employer must articulate any clear and reasonably specific factual bases upon which it based its decision." In other words, have objective evidence supporting your subjective assessment for promotion.

Crucial promotion-related decisions include the following.

DECISION 1: IS SENIORITY OR COMPETENCE THE RULE? In setting promotion policies, one decision is whether to base promotion on seniority or competence, or some combination of the two.

Today's focus on performance favors competence. However, this depends on several things. Union agreements sometimes contain clauses emphasizing seniority. Civil service regulations on seniority often govern promotions in public-sector organizations.

DECISION 2: HOW SHOULD WE MEASURE COMPETENCE? If the firm opts for competence, it should define and measure competence. Defining and measuring *past* performance is relatively straightforward. But promotions should also rest on procedures for predicting the candidate's future performance.

For better or worse, most employers use past performance as a guide, and assume that (based on exemplary past performance) the person will do well on the new job. Many use tests or assessment centers, or tools such as the 9-Box Grid (see Chapter 8), to evaluate promotable employees and identify those with executive potential.

For example, given the public safety issues involved, police departments tend to be very systematic when evaluating candidates for promotion to command positions. For the police, traditional promotion reviews include a written knowledge test, an assessment center, time-in-grade (for example, candidates for police captain in Little Rock, Arkansas, need a minimum 5 years as police officer, 2 years as sergeant, and 2 years as lieutenant before applying for promotion to captain),[87] a score based on recent performance appraisal ratings, and a personnel records review. The latter includes evaluation of supervisory-related education and experience, ratings from multiple sources, and systematic evaluation of behavioral evidence.[88]

DECISION 3: IS THE PROCESS FORMAL OR INFORMAL? Many firms have informal promotion processes. They may or may not post open positions, and key managers may use their own unpublished promotion criteria. Here employees (and courts) may conclude that factors like "who you know" are more important than performance, and that working hard to get ahead—at least in this firm—is futile.

Other employers set formal promotion policies and procedures. Employees receive a *formal promotion policy* describing the criteria by which the firm awards promotions. A *job posting policy* states the firm will post open positions and their requirements, and circulate these to all employees. As explained in Chapter 5 (Personnel Planning and Recruiting), many employers also maintain *employee qualification databanks,* and use replacement charts and computerized systems to assist in such planning.

DECISION 4: VERTICAL, HORIZONTAL, OR OTHER? Promotions aren't necessarily upward. Thus, some employees may have little or no interest in promotion to managerial roles.

Several options are available. Some firms, such as the exploration division of British Petroleum (BP), create two parallel career paths, one for managers and another for "individual contributors" such as high-performing engineers. At BP, individual contributors can move up to nonsupervisory senior positions, such as "senior engineer." These jobs have most of the financial rewards attached to management-track positions.

Another option is to move the person horizontally. For instance, a production employee may move to human resources to develop his or her skills and to test and challenge his or her aptitudes. In a sense, "promotions" are possible even when leaving the person in the same job. For example, you might enrich the job and provide training to enhance the opportunity for assuming more responsibility.

IN SUMMARY In any case, there are practical steps to take in formulating promotion policies.[89] Establish eligibility requirements, for instance, in terms of minimum tenure. Require the hiring manager to review the job's job description, and revise if necessary. Vigorously review all candidates' performance and history. Preferably promote only those who meet the job's requirements. And, reach out to employees who may have applied but who were not yet ready to be promoted. To paraphrase Google's former HR head, doing so is better than having them leave.[90]

Women may confront special promotional headwinds, as the Diversity Counts feature explains.

DIVERSITY COUNTS

The Gender Gap

Women constitute over 45% of the workforce (about 44% of full-time workers, and 64% of part-time ones);[91] however women hold only about 31% of top management positions.[92] Recently, 26% of CEOs and managing directors were women.[93]

These female top management numbers are up considerably from 10 or so years ago, but still beg the question of why there's female underrepresentation in top management at all. Blatant or subtle discrimination may account for much of this. In one older study, promoted women had to receive higher performance ratings than promoted men to get promoted, "suggesting that women were held to stricter standards for promotion."[94] Women report greater barriers (such as being excluded from informal

networks) than do men, and have more difficulty getting developmental assignments. Many employers obstruct women's promotional prospects from the beginning. For example, women make up almost half of entry-level hires, but are 18% less likely than men to be promoted to manager.[95]

Minority women seem particularly at risk. An older survey asked minority women what they saw as the career barriers. They said not having an influential mentor (47%), lack of informal networking with influential colleagues (40%), lack of company role models for members of the same racial or ethnic group (29%), and a lack of high-visibility assignments (28%).[96] Yet a more recent survey from McKinsey & Company and LeanIn.org came to about the same conclusions: Managers don't advocate for them, help them manage company politics, provide advice, nor give them stretch assignments.[97] Here are some suggestions, aimed at addressing the survey's key findings.[98]

"Women are 18% less likely to be promoted to manager." *Recognize this as a potential problem, and ensure training and appraisal processes are proactively nondiscriminatory.*

"Men are more likely to say they get what they want without having to ask." *Make sure you execute promotion and compensation decisions equitably.*

"Women get less of the support that advances careers." *Improve mentoring and networking practices.* For example, Marriott instituted leadership conferences for women. Speakers offered practical tips for career advancement, and shared their experiences. The conferences also provided informal opportunities for Marriott women to meet and forge business relationships.

"Women are less optimistic they can reach the top." *Have mentors encourage, as appropriate, stretch assignments for female employees, and encourage them to apply for promotions as appropriate, and have female top management role models.* Also, *eliminate barriers*. For example, some practices (such as required late-night meetings) may seem gender neutral but disproportionately affect women.

"Men are less committed to gender diversity efforts." *The top manager should make it clear that the company is fully committed to gender diversity.*

"Many women still work a double shift." About 54% of women do all or most of the household work, compared to 22% of men. *Institute career tracks (including reduced hours and flexible work schedules) that allow women to periodically reduce their time at work, but remain on a partner track*. When the accounting firm Deloitte saw it was losing female auditors, it instituted a new flexible/reduced work schedule. This enabled many working mothers to stay with the firm.[99] ■

Managing Transfers

transfers
Reassignments to similar positions in other parts of the firm.

A **transfer** is a move from one job to another, usually with no change in salary or grade. Employers may transfer a worker to vacate a position where the person is no longer needed, to fill one where the person is needed, or more generally to find a better fit for the employee within the firm. Many firms today boost productivity by consolidating positions. Transfers are a way to give displaced employees a chance for another assignment or, perhaps, some personal growth. Employees seek transfers for many reasons, including personal enrichment, more interesting jobs, greater convenience—better hours, location of work, and so on—or to jobs offering greater advancement possibilities. Transfers for the firm's convenience—once widely used—are used less of late.

Managing Retirements

Retirement planning is a significant issue for employers. Over seven million U.S. workers retired in 2021, about 7% more than in 2020.[100] In the United States, the number of 25- to 34-year-olds is growing relatively slowly, and the number of 35- to 44-year-olds is declining. So, with many employees in their 60s approaching retirement age, employers face a problem: either retain potential retirees, or face the

possibility of not filling all their open positions. Many have wisely chosen to fill their staffing gaps in part with current or soon-to-be retirees. Recently, about 54% of all workers expected to continue working when they retire.[101] For some, it's about the money. But in most cases, it was because they felt that working in retirement would improve their mental well-being.

The bottom line is that "retirement planning" is no longer just about helping current employees slip into retirement.[102] It should also help the employer to retain, in some capacity, the skills of those who would normally leave the firm. HR managers, employees, and supervisors should all have input into the employer's retirement processes.[103]

RETIREMENT PROGRAM STEPS A reasonable first step is to conduct numerical analyses of pending retirements. This should include a demographic analysis (including a census of the company's employees), determining the current average retirement age for the company's employees, and assessing how retirements will affect the employer's healthcare and pension benefits. The employer can then determine the extent of the "retirement problem" and take fact-based steps to address it.[104]

Employers seeking to attract and/or retain retirees should take several steps. The general idea is to institute human resource policies that encourage and support older workers. Not surprisingly, studies show that loyal employees are more likely to stay beyond their normal retirement age.[105] It therefore helps to create a culture that honors experience. For example, CVS knows that traditional recruiting media might not attract older workers; CVS thus works through the National Council on Aging, city agencies, and community organizations to find new employees. They also welcome older workers: "I'm too young to retire. [CVS] is willing to hire older people. They don't look at your age but your experience," said one dedicated older worker.[106] Others modify selection procedures. For example, one British bank stopped using psychometric tests, replacing them with role-playing exercises to gauge how candidates deal with customers.

Other techniques employers use to keep older workers include offering them part-time positions, hiring them as consultants or temporary workers, offering them flexible work arrangements, encouraging them to work past traditional retirement age, providing training to upgrade skills, and instituting phased retirement programs (gradually reduced work schedules).[107]

Cathy Yeulet/123RF

Employers are transferring employees less often, partly because of family resistance.

LEARNING OBJECTIVE 10-5

Explain each of the main grounds for dismissal.

Managing Dismissals

dismissal
Involuntary termination of an employee's employment with the firm.

Not all employee separations are voluntary. Some career plans and appraisals end not in promotion or graceful retirement but in **dismissal**—involuntary termination of an employee's employment with the firm. Many dismissals are avoidable. For example, many dismissals flow from bad hiring decisions. Therefore selection tests, background checks, drug testing, and clearly defined jobs can reduce such dismissals.[108]

Grounds for Dismissal

There are four bases for dismissal: unsatisfactory performance, misconduct, lack of qualifications for the job, and changed requirements of (or elimination of) the job.

Unsatisfactory performance refers to a persistent failure to perform assigned duties or to meet prescribed standards on the job.[109] Specific reasons include lack of productivity or poor-quality work, excessive absenteeism, tardiness, or an adverse attitude.

Misconduct is deliberate and willful violation of the employer's rules and may include stealing, rowdy behavior, sexual harassment, and physical violence or threats at work.

Lack of qualifications for the job is an employee's inability to do the assigned work, although the person wants to. Because this employee may be trying to do the job, it is reasonable to consider retraining the employee, or assigning the person to another job.

Changed requirements of the job is an employee's incapability of doing the job after the nature of the job has changed. Similarly, you may have to dismiss an employee when his or her job is eliminated. Again, the employee may be industrious, so it is reasonable to retrain or transfer this person, if possible.

insubordination
Willful disregard or disobedience of the boss's authority or legitimate orders; criticizing the boss in public.

Insubordination, a form of misconduct, is sometimes the grounds for dismissal. The two basic categories of insubordination are *unwillingness* to carry out the manager's legal orders, and *disrespectful behavior* toward the manager. Examples of insubordination include the following:[110]

1. Direct disregard of the boss's authority
2. Direct disobedience of, or refusal to obey, the boss's orders, particularly in front of others
3. Deliberate defiance of clearly stated company policies, rules, regulations, and procedures
4. Public criticism of the boss
5. Blatant disregard of reasonable instructions
6. Contemptuous display of disrespect
7. Disregard for the chain of command
8. Participation in (or leadership of) an effort to undermine and remove the boss from power

FAIRNESS SAFEGUARDS Dismissals are never easy. However, the manager can take steps to make them fair.[111] First, allow the employees to explain why they did what they did. It could turn out, for instance, that the employee "disobeyed" the order because the person did not understand it. Second, people who get *full explanations* of why and how termination decisions were made "were more likely to perceive their layoff as fair . . . and indicate that they did not wish to take the past employer to court."

Third, have a formal *multistep procedure* (including warning) and an appeal process.

Fourth, *the person who actually does the dismissing* is important. Employees in one study whose managers informed them of an impending layoff viewed the dismissal fairer than did those told by, say, a human resource manager. Some employers are less diplomatic. When JCPenney dismissed thousands of employees years ago, many were fired in groups of a few dozen to over 100 in an auditorium.[112] Others relay the news via email or text messages.[113] Better to use the right person, and dismiss humanely.

Fifth, dismissed employees who feel they've been treated unfairly financially are more likely to sue. Many employers use severance pay to blunt that. Most provide severance based on position level, salary, and tenure, but only about half have formal severance policies.[114] As one example, Southwest Airlines noncontract workers may receive the following severance pay:[115]

- 0–4 years: 1 month of pay per year of service
- 5–9 years: 6 months' pay
- 10+ years: One year of pay

Know Your Employment Law: Termination at Will

terminate at will
In the absence of a contract, either the employer or the employee can terminate at will the employment relationship.

For more than 100 years, the prevailing rule in the United States has been that without an employment contract, either the employer or the employee can **terminate at will** the employment relationship. In other words, the employee could resign for any reason, at will, and the employer could similarly dismiss an employee for any reason, at will. Today, however, dismissed employees increasingly take their cases to court, and employers are finding that they no longer have a blanket right to fire.

Three main protections against wrongful discharge eroded the termination-at-will doctrine—*statutory exceptions, common law exceptions,* and *public policy exceptions.*

First, *statutory exceptions* include federal and state equal employment and workplace laws that prohibit certain dismissals. For example, Title VII of the Civil Rights Act of 1964 prohibits discharging employees based on race, color, religion, sex, or national origin.[116] In 2020 the U.S. Supreme Court ruled that Title VII also covers sexual orientation and transgender status.[117] About half of all states have laws protecting LGBTQ+ workers from termination for sexual orientation.[118] For federal employees, the EEOC held that Title VII of the Civil Rights Act of 1964 applies to LGBTQ+ individuals.[119]

Second, numerous *common law exceptions* exist. Courts create these exceptions based on precedents. For example, courts have held that employee handbooks promising termination only "for just cause" may create an exception to the at-will rule.[120]

Finally, under the *public policy exception,* courts have held a discharge to be wrongful when it was against a well-established public policy. Thus, a public policy exception might prohibit an employer from firing an employee for refusing to break the law.

Avoiding Wrongful Discharge Suits

Wrongful discharge (or *wrongful termination*) occurs when an employee's dismissal does not comply with the law or with the contractual arrangement stated or implied by the employer. (In a wrongful *constructive discharge* claim, the plaintiff argues that they were forced to quit because the employer made the working conditions intolerable.)[121]

Avoiding wrongful discharge suits requires several things.[122] *First*, have employment policies including grievance procedures that help show that you treat employees fairly. Also use severance pay to blunt a dismissal's sting.[123] No termination is pleasant, but the first line of defense is to handle it justly.[124]

Second, review and refine all employment-related policies, procedures, and documents to limit challenges. Procedural steps include the following:[125]

- Have applicants sign the employment application. Make sure it contains a statement that "the employer can terminate at any time."
- Review your employee manual to delete statements that could undermine your defense in a wrongful discharge case. For example, delete "employees can be terminated only for just cause."
- Have written rules listing infractions that may require discipline and discharge.
- If a rule is broken, get the worker's side of the story in front of witnesses, and preferably get it signed. Then check out the story.
- Be sure employees get a written appraisal at least annually. If an employee shows evidence of incompetence, give that person a warning. Provide an opportunity to improve.
- Keep careful confidential records of all actions such as employee appraisals, warnings or notices, and so on.
- Finally, ask the questions in Figure 10-2.

Avoiding Wrongful Discharge Claims: Some Questions to Ask Before Making the Dismissal Final

Avoiding wrongful discharge claims is a complicated matter that involves, for instance, ensuring that the dismissal is fair and that it does not involve issues of discrimination, harassment, retaliation, or breach of contract. Illustrative questions to ask would include

- Is the employee covered by any type of written agreement, including a collective bargaining agreement?
- Is there any workers' compensation involvement?
- Have reasonable rules and regulations been communicated and enforced?
- Has the employee been given an opportunity to explain any rule violations or to correct poor performance?
- Is there any direct or circumstantial evidence (such as statements) that the employee is being terminated for discriminatory reasons?
- Are similar employees treated differently on the basis of age, gender, race, or other protected group category?
- Did an employer make unwelcome sexual advances, request sexual favors, or seek to establish a romantic or sexual relationship?
- Before being fired, did the employee report potential violations in the company to a supervisor, colleagues, your human resources department, or an enforcement agency such as OSHA?
- Is the employee working under a written contract, and if so, did it establish permissible reasons for termination or a termination procedure?
- Did the employer, supervisor, or superior make any verbal promises, such as saying the person's job was "guaranteed" or ensuring "tenure" at work?
- How long has the employee been working here, and is this his or her first discipline issue?
- Are you sure there have been past warnings?
- Has anyone else committed this offense and been treated differently?

FIGURE 10-2 Avoiding Wrongful Discharge Claims

Source: Sovereign, K. L. (1999). *Personal law* (4th ed.). Copyright © 1999 Pearson Education, Inc. Reprinted by permission of Pearson Education, Inc., Upper Saddle River, NJ; Pack, A., & Capito, K. (2012, September 11). 8 questions an employer should ask before taking an adverse employment action. www.-dinsmore.com/adverse_-employment_action_steps, accessed May 31, 2017; Wrongful termination checklist. http://employment.findlaw.com/losing-a-job/wrongful-termination-checklist.html, accessed May 1, 2017.

Supervisor Liability

Courts may hold managers personally liable for their supervisory actions, including for dismissals.[126] For example, the Fair Labor Standards Act defines *employer* to include "any person acting directly or indirectly in the interest of an employer in relation to any employee."[127] This can mean the individual supervisor.

There are several ways to reduce the likelihood of having personal liability become an issue.

- *Follow company policies and procedures.* An employee may initiate a claim against a supervisor for allegedly not following policies and procedures.
- *Carefully consider and fully document* the basis for any termination decision.
- Administer the dismissal in a manner that does not add to the employee's *emotional hardship* (as would having the employee publicly collect his or her belongings and leave the office).
- *Do not act in anger,* since doing so undermines the appearance of objectivity.
- Finally, *use the HR department* for advice regarding how to handle difficult dismissal situations.

Security Measures

The employer should use a checklist to ensure (for instance) that dismissed employees return all keys and company property, and (often) that they're accompanied out of the building.[128] For example, the employer should disable Internet-related accounts of former employees, plug holes that could allow them to gain illegal online access, and have rules for return of company laptops and handhelds. As a matter of policy, the employer should immediately inform the IT department of an impending employee separation, to enable IT to take the necessary actions. These actions should include, for instance, disabling access and passwords and changing IP addresses.[129]

The Offboarding Exit Process

Most employers have taken a bare-bones approach to how they handle departing employees. There's often a short exit interview, a description of what the employee's postemployment benefits and resources will be, and perhaps a discussion of severance pay and benefits.

Some employers are now putting more thought into their exit processes (now often called *offboarding*.) Modern programs contain several elements.[130]

COMPLIANCE The bedrock of the exit process is ensuring that the employer meets all its compliance requirements, to protect against litigation. This would include, for instance, ensuring compliance with equal employment, labor relations, and benefits laws. (For example, exiting employees should be informed of their rights under COBRA, the Consolidated Omnibus Budget Reconciliation Act.)

AN ONGOING PROCESS Modern offboarding's main characteristic is that employers don't just view it as a terminal event. Instead, some plan for breakups starting when the person is hired. For example, employment in many organizations (particularly in law, accounting, and consulting) is notoriously "up or out." Those who don't make it to partner know they will probably leave. These firms often explain to new employees, up front, that not everyone will make it to partner, and that resources are available to help them build their current and future careers. Many, including Microsoft and Boston Consulting Group, maintain company-supported alumni organizations. Current and former employees use these to keep in touch with each other and to maintain a connection with those who have left. Employees often have the opportunity to join as soon as they're on board.

SUCCESSION PLANS Regularly updated succession plans can help the employer and employee monitor progress. Career-oriented appraisals can help signal when one's future might be limited.

SEVERANCE Particularly for those leaving involuntarily, severance pay and assistance in getting new employment will be uppermost in their minds. We'll see that o*utplacing* typically includes career assessment, job search coaching, and perhaps helping the person build a social media presence.

The Termination Interview

Dismissing an employee is one of the most difficult tasks you can face at work. The dismissed employee, even if warned many times, may react with disbelief or even violence. (Review the impending interview with an attorney, if you believe protected characteristics such as gender or age may become issues during or after the interview.)[131] Guidelines for the **termination interview** are as follows:[132]

termination interview
The interview in which an employee is informed of the fact that the person has been dismissed.

1. ***Plan the interview.***
   - Make sure the employee keeps the appointment time.
   - Have employee agreements, the human resource file, and a release announcement prepared in advance.
   - Have phone numbers ready for medical or security emergencies.
2. ***Get to the point.*** When the employee enters, give the person a moment to get comfortable and then tell him or her the purpose of the meeting and of your decision.
3. ***Describe the situation.*** Briefly, in three or four sentences, explain why the person is being let go. For instance, "Production in your area is down 4%, and we are continuing to have quality problems. We have talked about these problems several times in the past 3 months, and the solutions are not being followed through on. We have to make a change." Don't personalize the situation as in, "Your production is just not up to par." Emphasize that the decision is irrevocable. State the effective date of the termination. Preserving the employee's dignity is important. Point out that the situation was carefully reviewed, but do not provide a detailed analysis of the documents supporting the discharge.[133]
4. ***Listen.*** Continue the interview for several minutes until the person appears to be talking freely and reasonably calmly.

5. ***Review the severance package.*** Describe severance payments, benefits, access to office support people, and the way references will be handled. Make no promises of benefits beyond those already in the support package.
6. ***Identify the next step.*** The terminated employee may be disoriented and unsure what to do next. Explain where the employee should go next, upon leaving the interview.

outplacement counseling
A formal process by which a terminated person is trained and counseled in the techniques of self-appraisal and securing a new position.

OUTPLACEMENT COUNSELING With **outplacement counseling** the employer arranges for an outside firm to provide terminated employees with career planning and job search skills. *Outplacement firms* usually provide such outplacement services. Employees (usually managers or professionals) who are let go may get office space and clerical services they can use at local offices of such firms, plus the counseling. The outplacement counseling is part of the terminated employee's support or severance package. Why not just give the person the outplacement fee as additional severance? In general, providing outplacement services seems to have positive effects for both the terminated employee and the employer.[134]

exit interviews
Interviews with employees who are leaving the firm, conducted for obtaining information about the job or related matters, to give the employer insight about the company.

EXIT INTERVIEW Many employers conduct **exit interviews** for all employees who leave, just prior to the employee leaving. These aim to give employers insights into the companies' strengths and weaknesses.[135] Questions include: What made you start looking for a new job? How would you describe our company's culture? How would you describe your supervisor's management style? What did you like most/least about the company?[136] Other questions relate to HR (such as promotion processes), the work itself (including working conditions), and to competitive benchmarks (such as salaries compared to competitors'). Try to make sure the exiting employee leaves as a supporter of the employer.[137]

The assumption is that because an employee is leaving, the person will be candid, but this is debatable.[138] One older study found that at separation, 38% of those leaving blamed salary and benefits, and 4% blamed supervision. Followed up 18 months later, 24% blamed supervision and 12% blamed salary and benefits. Some employees will hesitate to be candid, either because they fear retribution or want a good reference. Therefore scheduling *post exit interviews* for five or so months later can be helpful.[139] Here delve into the reasons why the person left, how they feel about the employer, and why they feel that way.

THE ACTUAL EXIT Again, the exit interview is just one part of a broader exit process. The employer should have a checklist.[140] As noted earlier, ensure that the employee returns all keys and company equipment, that all computer and database password access is terminated, that proper communications are sent internally (for instance, to other employees if appropriate, and to payroll) and externally, that the employee leaves the premises in a timely fashion, and that if necessary security precautions are followed. About 40% of workers laid off in one study placed negative social media reviews about the employer. The point is to make the separation as civil as possible.[141]

Many employees today quit without giving notice. Sometimes that's justified. For example, those taking jobs with competitors should no longer see the employer's information. But often it reflects unfamiliarity with the traditional two-week notice standard, or of seeing one's colleagues summarily dismissed.[142]

When someone does resign, remember to be definitive about their end date. In most cases, the employer will not want to support someone who's seeking alternative employment. Some employees may say they don't have a definite date yet; others may offer a 60-day notice. Each case is different. However, it's often advisable to remind them of the employer's policy of accepting (let's say) two weeks' notice.[143]

FOR THE EMPLOYEE What should you do if you get fired or passed over for a position?[144] Most people surrender to the usual stages of shock, denial, and anger. However, the better first step is usually to think through why you lost the job. Doing so isn't easy. Actively explore what (if anything) you did to contribute to the problem. Then objectively consider what you might do differently next time, and try to view the loss (difficult though this may be) as an opportunity. Then evaluate your new options and be ready to seize the right opportunity.

Layoffs and the Plant Closing Law

layoff
An employer sending employees home due to a lack of work; this is typically a temporary situation.

A **layoff**, in which the employer sends workers home for a time for lack of work, is usually not a permanent dismissal (although it may turn out to be). Rather, it is a temporary one, which the employer expects will be short term. However, some employers use the term *layoff* as a euphemism for discharge or termination.

A study illustrates one firm's layoff process. Senior management first met to make strategic decisions about the size and timing of the layoffs. They also debated the relative importance of the skills the firm needed going forward. Supervisors then assessed their subordinates, rating their nonunion employees either A, B, or C (union employees were covered by a union agreement making layoffs dependent on seniority). The supervisors then informed each of their subordinates about his or her A, B, or C rating and told each that those with C grades were most likely to be laid off.[145]

LAYOFF'S EFFECTS It's not surprising that layoffs often result in "deleterious psychological and physical health outcomes" for those losing their jobs, as well as for survivors.[146] But not just the "victims" and "survivors" suffer. In one study, researchers "found that the more managers were personally responsible for handing out [pending layoff] notices to employees . . . the more likely they were to report physical health problems, to seek treatment for these problems, and to complain of disturbed sleep."[147]

Given all this, some employers try to minimize layoffs and dismissals during downturns. Reducing everyone's work hours and mandating vacations are two options. Others reduce layoffs by offering financial bonuses for improved productivity.[148]

Ironically, when some employees most need employee assistance programs (such as counseling)—after they're laid off—they lose them. More firms are therefore extending these program benefits for a month or two to former employees. For example, Florida's Sarasota County extended employee assistance program benefits for 2 months after it laid off some employees.[149]

The Worker Adjustment and Retraining Notification Act (WARN Act, or the plant closing law) requires employers of 100 or more employees to give 60 days' notice before closing a facility or starting a layoff of 50 or more people.[150]

Adjusting to Downsizings and Mergers

downsizing
The process of reducing, usually dramatically, the number of people employed by a firm.

Downsizing means reducing, usually dramatically, the number of people employed by a firm. The basic idea is to cut costs and raise profitability. Downsizings (some call them "productivity transformation programs")[151] require careful consideration of several matters.

1. First is making sure *the right people* are let go; this requires having an effective appraisal system in place.
2. Second is *compliance with all applicable laws,* including WARN.
3. Third is executing the dismissals in a manner that is *just and fair*.
4. Fourth is *security,* for instance, retrieving keys and ensuring that those leaving don't take prohibited items with them.
5. Fifth is reducing the remaining employees' uncertainty and addressing their concerns. This typically involves a postdownsizing announcement and program, including meetings where senior managers field questions from the remaining employees.

Providing advanced notice regarding the layoff can help cushion the otherwise negative effects. So can interpersonal sensitivity (in terms of the manager's demeanor during layoffs).[152] Layoffs can be more challenging abroad due to special legal obligations, such as requirements for a year's notice in some countries.

Large-scale dismissals may be unavoidable but are rarely a panacea. Studies found that layoffs usually had a neutral to negative effect on an employer's stock price right after it announced a downsizing. Most companies' profitability declined after mass layoffs.

Low morale amongst those "left behind" reduces employee engagement. And of course, the employer loses what it invested in training, as well as the institutional knowledge.[153]

Dismissals and downsizings may also be less objective than they appear. One study found that top managers with a higher economic and social class were more open to employee dismissals; those with low social and economic class traditions were less open to them.[154] In another study, CEOs being paid below their peers were significantly more likely to announce layoffs (perhaps as a way to boost profits and their pay), compared to those paid more than their peers.[155]

Supportiveness and creativity are especially important in companies that rely heavily on employee engagement and teamwork.[156] Here, turnover is particularly disruptive, so it may be more important to avoid layoffs. Alternatives here include: implement pay freezes or cuts; introduce a hiring freeze before reducing the workforce; provide candid communications about the need for the downsizing; give employees an opportunity to express their opinions about the downsizing; and be fair and compassionate in implementing the downsizing.[157] When the board told one chief HR officer that it was closing, he agreed to handle the closure, if they would execute the closure humanely. Elements in the closure plan included: employee severance; employee emotional support and coaching; a company job fair; employee training to improve skills for their next jobs; and a closing ceremony.[158]

Chapter Review

Chapter Section Summaries

10-1. Employees are ultimately responsible for their own careers, but employers and managers also have roles in **career management.** These include providing career-oriented information, offering career planning workshops, providing employee development budgets, and offering online career development programs. Perhaps the simplest is to make the appraisal itself career-oriented, by linking the appraisal feedback to the employee's aspirations and plans.

10-2. The employer's career planning and development process and practices (including career-oriented appraisal) help to foster **employee engagement.** Managed effectively, the employer's career development process should send the signal that the employer cares about the employee's career success.

10-3. Managing voluntary turnover requires identifying its causes, and then addressing them. A comprehensive approach to **retaining employees** should be multifaceted and include improved selection, a well-thought-out training and career development program, assistance in helping employees lay out potential career plans, providing employees with meaningful work and recognition and rewards, promoting work–life balance, acknowledging employees' achievements, and providing all this within a supportive company culture.

10-4. Employers need to address employee **life-cycle career management** issues. Most notably, promotions can provide opportunities to reward exceptional performance, and to fill open positions with tested and loyal employees. Several decisions loom large in any firm's promotion process: Is seniority or competence the rule? How should we measure competence? Is the process formal or informal? Vertical, horizontal, or other? Women and people of underrepresented groups still experience relatively less career progress in organizations, and bias and more subtle barriers are often the cause. In general, the employer's promotion processes must comply with all the same antidiscrimination laws as do procedures for recruiting and selecting employees or any other HR actions. Transfers and retirements are other important career life-cycle issues.

10-5. **Managing dismissals** is an important part of any supervisor's job. Among the reasons for dismissal are unsatisfactory performance, misconduct, lack of qualifications, changed job requirements, and insubordination. In dismissing one or more employees, however, remember that termination at will as a policy has been weakened by exceptions in many states. Furthermore, care should be taken to avoid wrongful discharge suits.

Discussion Questions

10-1. Why is it advisable for an employee retention effort to be comprehensive? What activities would you say are involved in such a program?

10-2. What is the employee's role in the career development process? The manager's role? The employer's role?

10-3. What are the main decisions employers should address in reaching promotion decisions?

10-4. Discuss at least four procedural suggestions for managing dismissals effectively.

10-5. What would you as a supervisor do to avoid someone accusing you of wrongful dismissal?

Individual and Group Activities

10-6. Many rightfully offer IBM as an example of an employer that works hard to improve employee retention and engagement. Browse through the employment pages of IBM's website (such as https://www.ibm.com/employment/?lnk=fab). In this chapter, we discussed actions employers can take to improve employee retention and engagement. From the information on IBM's web pages, what is IBM doing to support retention and engagement?

10-7. In groups of four or five students, meet with one or two administrators and faculty members in your college or university and, based on this, write a two-page paper on the topic "the faculty promotion process at our college." What do you think of the process? Based on our discussion in this chapter, what suggestions would you make for improving it?

10-8. Working individually or in groups, choose two occupations (such as management consultant, HR manager, or salesperson) and use sources such as O*NET to size up the future demand for this occupation in the next 10 years or so. Does this seem like a good occupation to pursue? Why or why not?

10-9. In groups of four or five students, interview a small business owner or an HR manager with the aim of writing a two-page paper addressing the topic "steps our company is taking to reduce voluntary employee turnover." What is this employer's turnover rate now? How would you suggest it improve its turnover rate?

10-10. The HRCI *Exam Content Outline* website https://www.hrci.org/docs/default-source/web-files/phr-exam-content-outline.pdf?sfvrsn=13c44f61_28 lists the knowledge someone studying for the HRCI PHR certification exam needs to have in each area of human resource management (such as in Business Management, and in Talent Planning and Acquisition).[159] In groups of several students, do four things: (1) review the *Exam Content Outline* on that website; (2) identify the material in this chapter that relates to the Exam Content Outline's required "Knowledge Of" lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.

10-11. Some years ago, a survey of college graduates in the United Kingdom found that although many hadn't found their first jobs, most were already planning "career breaks" and to keep up their hobbies and interests outside work. As one report of the findings put it, "the next generation of workers is determined not to wind up on the hamster wheel of long hours with no play."[160] Part of the problem seems to be that many already see their friends "putting in more than 48 hours a week" at work. Career experts reviewing the results concluded that many of these recent college grads "are not looking for high-pay, high-profile jobs anymore."[161] Instead, they seem to be looking to "compartmentalize" their lives. They want to keep the number of hours they spend at work down, so they can maintain their hobbies and outside interests. If you were mentoring one of these people at work, what three bits of career advice would you give them? Why? What (if anything) would you suggest their employers do to accommodate these graduates' stated career wishes?

10-12. Websites such as Sporting News occasionally run a story listing what they call the greatest coaches (for example, key "greatest coaches" into Google search).[162] Look at this list, and pick out two of the names. Then research these people online to determine what behaviors they exhibited that seem to account for why they were great coaches. How do these behaviors compare with what this chapter had to say about effective coaching?

Experiential Exercise

Where Am I Going . . . and Why?

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Purpose: The purpose of this exercise is to provide you with experience in analyzing your career preferences.

Required Understanding: Students should be thoroughly familiar with the "Employee's Role in Career Management" section in this chapter, as well as using O*NET (which we discussed in Chapter 4).

How to Set Up the Exercise/Instructions: Using O*NET and the "Employee's Role in Career Management" section in this chapter, analyze your career-related inclinations (you can also take the Self-Directed Search for about $10 at www.self-directed-search.com). Based on this analysis, answer the following questions (if you wish, you may do this analysis in teams of three or four students).

10-13. What does your research suggest to you about what would be your preferable occupational options?
10-14. What are the prospects for these occupations?
10-15. Given these prospects and your own occupational inclinations, outline a brief, one-page career plan for yourself, including current occupational inclinations, career goals, and an action plan/career path listing four or five development steps you will need to take in order to get from where you are now career-wise to where you want to be, based on your career goals.

Application Case

Uber Technologies Inc.

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The year 2017 was a tough one for Uber Technologies Inc.[163] An Uber engineer posted a blog called "Reflecting on One Very, Very Strange Year in Uber," in which she detailed, among other things, a culture of harassment at Uber. Almost at once, Uber values that symbolized its "win at any cost" way of doing things (values like "builders build, always be hustlin'," and "meritocracy and toe stepping") were called into question. So in 2017, not only was Uber's core employee turnover too high, but six top executives stepped down, including the president, finance head, senior vice president of engineering, and CEO Travis Kalanick.

Uber's Board of Directors retained former attorney general Eric Holder, Jr. to conduct an analysis of Uber's culture. Holder's recommendations provide insight into the problems Uber needed to address. The lawyers recommended, for instance, that Uber: prohibit romantic relationships among employees where one person reports to the other; institute guidelines on using alcohol and controlled substances at work; adopt a zero tolerance policy with respect to harassment, discrimination, and retaliation; broaden its recruitment practices to include sources of minority job candidates; and that the Board of Directors create a special ethics and culture committee.

Questions

10-16. Without doing any more research beyond what you learned in this chapter, what steps would you suggest Uber take to improve employee retention?
10-17. Was there any information in previous chapters of this book that would help to illustrate other steps Uber could take to improve retention?
10-18. Use other Internet sources, including Uber.com, to finalize an answer to the question: What other steps should Uber take to improve employee retention?

Continuing Case

Carter Cleaning Company

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The Career Planning Program

Career planning has always been a pretty low-priority item for Carter Cleaning, since "just getting workers to come to work and then keeping them honest is enough of a problem," as Jack likes to say. Yet Jennifer thought it might not be a bad idea to give some thought to what a career planning program might involve for Carter. Many of their employees had been with them for years in dead-end jobs, and she frankly felt a little bad for them: "Perhaps we could help them gain a better perspective on what they want to do," she thought. And she definitely believed that career support would have an effect on improving Carter's employee retention.

Questions

10-19. What would be the advantages to Carter Cleaning of setting up a career planning program?
10-20. Who should participate in the program? All employees? Selected employees?
10-21. Outline and describe the career development program you would propose for the cleaners, pressers, counter people, and managers at the Carter Cleaning Centers.

Translating Strategy into HR Policies and Practices Case*,§

**The overall strategy map on the inside back cover of this text outlines the relationships involved.*

Improving Performance at the Hotel Paris

The New Career Management System

The Hotel Paris's competitive strategy is "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy, by eliciting the required employee behaviors and competencies.

Lisa Cruz knew that, as a hospitality business, the Hotel Paris was uniquely dependent upon having engaged, high-morale employees. In a factory or small retail shop, the employer might be able to rely on direct supervision to make sure that the employees were doing their jobs. But in a hotel, just about every employee is interacting directly with guests in real time. There is usually no one there to supervise limousine drivers when they pick up guests at the airport, or when the valet takes the guest's car, or the front-desk clerk signs the guest in, or the housekeeping clerk needs to handle a guest's special request. If the hotel wanted satisfied guests, they had to have engaged employees who did their jobs as if they owned the company, even when the supervisor was nowhere in sight. But for the employees to be engaged, Lisa knew, the Hotel Paris had to make it clear that the company was also committed to its employees.

From her experience, she knew that one way to do this was to help her employees have successful and satisfying careers, and she was therefore concerned to find that the Hotel Paris had no career management process at all. Supervisors weren't trained to discuss employees' developmental needs or promotional options during the performance appraisal interviews. Promotional processes were informal. And the firm made no attempt to provide any career development services that might help its employees to develop a better understanding of what their career options were, or should be. Lisa was sure that engaged employees were key to improving the experiences of the hotel's guests, and that she couldn't boost employee engagement without doing a better job of attending to her employees' career needs. In two hotels she began encouraging supervisors to at least engage in career-oriented appraisals with their subordinates, on a pilot project basis.

For Lisa and the CFO, their preliminary research left little doubt about the advisability of instituting a new career management system at the Hotel Paris. Based on their pilot project, employees in those Hotel Paris hotels who had been working under the new career management directive were more engaged, received more complimentary letters from guests, and received higher performance appraisal ratings than did employees who did not have career plans. The CFO therefore gave the go-ahead to design and institute a new Hotel Paris career management program.

Lisa and her team knew that they already had most of the building blocks in place, thanks to the new performance management system they had instituted just a few weeks earlier. For example, the new performance management system already required that the supervisor appraise the employee based on goals and competencies that were driven by the company's strategic needs; and the appraisal itself produced new goals for the coming year and specific development plans for the employee. These development plans had to make sense in terms of both the company's and the employee's needs and preferences.

In addition to the new performance management elements already in place, Lisa and her team created an online "Hotel Paris Career Center." With links to a choice of career assessment tools such as the Self-Directed Search (www.self-directed-search.com) and wizard-based templates for developing one's own career plan, the site went far toward providing the Hotel Paris's employees with the career assistance that they required. Also on the site, a new "International Job Openings" link made it easier for Hotel Paris employees to identify positions for which they might be qualified. The results exceeded Lisa and the CFO's expectations. Virtually every employee produced a career plan within the first 6 months. The appraisal interviews often turned into animated, career-oriented development sessions, and soon the various measures of employee commitment and guest service were trending up.

Questions

10-22. "Many hotel jobs are inherently 'dead end'; for example, housekeepers, laundry workers, and valets either have no great aspirations to move up, or are just using these jobs temporarily, for instance, to help out with household expenses." First, do you agree with this statement? Why, or why not? Second, list three more specific career activities you would recommend Lisa implement for these employees.

10-23. Using what you learned in this chapter of Dessler, *Human Resource Management*, build on the company's new system by recommending two more specific career development activities the hotel should implement.

10-24. What other specific career development activities would you recommend in light of the fact that the Hotel Paris's hotels and employees are dispersed around the world?

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CHAPTER 10

Writing Assignments

10-25. You manage a small restaurant in Columbus, Ohio, and keeping good employees is one of your biggest challenges. Most waitstaff and kitchen staff last no more than 8–9 months. Explain what you would do to improve employee retention.

10-26. Explain what you as a supervisor can do to support your employees' career management needs.

Key Terms

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Appendix for Chapter 10

Managing Your Career and Finding a Job

The individual is responsible for creating and managing his or her own career. And, in today's job marketplace, knowing how to find and get a job is crucial.

Tools for Making Career Choices

Many people don't put much thought into their careers. Some choose majors based on class scheduling preferences, favorite professors, or unstated psychological motives. Others stumble into jobs because "that's all that was available." If there was ever anything that demanded fact-based decisions, it is choosing your career.

One may think of career planning in terms of four stages:[164] (1) clarify your goals, in terms of both work and nonwork outcomes; (2) compile, analyze, and "map" your personal resources (interests, skills, strengths, weaknesses), as well as the barriers you think may affect achieving your goals; (3) develop action plans for what you will do to achieve your goals (including overcoming the barriers you identified); and (4) monitor your progress and adapt your plans as need be.

Whatever your process, the essential step in career planning is to learn as much as possible about your interests, aptitudes, and skills (or, to paraphrase Aristotle, "discovering one's skills, talents, and aptitudes, and then using these to make the most of them is basic to living a good life").[165]

The most direct way to learn as much as possible about yourself is through experience, such as jobs, internships, and other experiences. These should help you crystallize what it is you like to do and are good at (and, as importantly, *not* good at). Such experience doesn't just help career planning: In one study, researchers sent out 9,400 fictitious resumes for "applicants." On-the-job experience—for instance, via internships—seemed to be the single most important factor in getting a job interview.[166]

Beyond that, there are career tests and exercises you can use. As noted earlier, the National Career Development Association provides listings of online career planning tools.[167] These include interest surveys and career assessment programs.

IDENTIFY YOUR OCCUPATIONAL ORIENTATION Career-counseling expert John Holland says that personality (including values, motives, and needs) is one career choice determinant. For example, a person with a strong social orientation on Holland's Self-Directed Search (SDS) might be attracted to careers that entail interpersonal rather than intellectual or physical activities and to occupations such as social work. Based on research with his earlier Vocational Preference Test (VPT), Holland found six basic "RIASEC" personality types or orientations (see www.self-directed-search.com).[168]

1. ***Realistic orientation.*** These people are attracted to occupations that involve physical activities requiring skill, strength, and coordination. Examples include forestry, farming, and agriculture.
2. ***Investigative orientation.*** Investigative people are attracted to careers that involve cognitive

activities (thinking, organizing, understanding) rather than affective activities (feeling, acting, or interpersonal and emotional tasks). Examples include biologist, chemist, and college professor.

3. ***Artistic orientation.*** People here are attracted to careers that involve self-expression, artistic creation, expression of emotions, and individualistic activities. Examples include artists, advertising executives, and musicians.
4. ***Social orientation.*** These people are attracted to careers that involve interpersonal rather than intellectual or physical activities. Examples include clinical psychology, foreign service, and social work.
5. ***Enterprising orientation.*** Verbal activities aimed at influencing others characterize enterprising personalities. Examples include managers, lawyers, and public relations executives.
6. ***Conventional orientation.*** A conventional orientation favors careers that involve structured, rule-regulated activities, as well as careers in which it is expected that the employee subordinate his or her personal needs to those of the organization. Examples include accountants and bankers.

Most people have more than one "RIASEC" occupational orientation (they might be social, realistic, and investigative, for example), and Holland believed that the more similar or compatible these orientations are, the less internal conflict or indecision a person will face in making a career choice. You can take Holland's SDS online for a small fee (see www.self-directed-search.com). Of course, as someone gains experience, it is possible (or likely) that his or her RIASEC scores will change over time.[169]

IDENTIFY YOUR SKILLS You may have a "conventional" orientation, but whether you have *the skills* to be an accountant, banker, or credit manager will affect which occupation you ultimately choose. Therefore, you have to identify your skills. We presented some exercises for this earlier in this chapter (under "The Employee's Role in Career Management").

APTITUDES AND SPECIAL TALENTS For career planning purposes, a person's aptitudes are usually measured with a test battery such as the general aptitude test battery (GATB), which most state one-stop career centers make available. This instrument measures various aptitudes including intelligence and mathematical ability. You can also use specialized tests, such as for mechanical comprehension. Holland's Self-Directed Search will also provide some insights into your aptitudes, as will O*NET.[170]

O*NET O*NET offers a free online "My Next Move" career assessment system (https://www.onetonline.org/help/onet/mynextmove).[171] It includes *O*NET Interest Profiler*, a tool that offers customized career suggestions on over 900 different careers based on a person's interests and level of education and work experience. Users obtain important information including skills, tasks, salaries, and employment outlook for occupations.[172]

As noted in the accompanying text, O*NET offers a free comprehensive online "My Next Move" occupation and career assessment system for building your future career (https://www.mynextmove.org/explore/ip). *Source:* https://www.mynextmove.org/explore/ip, accessed December 8, 2022.

IDENTIFY YOUR CAREER ANCHORS Professor Edgar Schein says that career planning is a continuing process of discovery—one in which a person slowly develops a clearer occupational self-concept in terms of what his or her talents, abilities, motives, needs, attitudes, and values are. Schein also says that as you learn more about yourself, it becomes apparent that you have a dominant *career anchor*, a concern or value that you will not give up if a [career] choice has to be made.

Career anchors, as their name implies, are the pivots around which a person's career swings; a person becomes conscious of them because of learning, through experience, about his or her talents and abilities, motives and needs, and attitudes and values. Based on his research at the Massachusetts Institute of Technology, Schein believes that career anchors are difficult to predict because they are evolutionary and a product of a process of discovery. Some people may never find out what their career anchors are until they have to make a major choice—such as whether to take the promotion to the headquarters staff or strike out on their own by starting a business. It is at this point that all the person's past work experiences, interests, aptitudes, and orientations converge into a meaningful pattern that helps show what (career anchor) is the most important factor in driving the person's career choices. Based on his study of MIT graduates, Schein identified five career anchors.[173]

TECHNICAL/FUNCTIONAL COMPETENCE People who had a strong technical/functional career anchor tended to avoid decisions that would drive them toward general management. Instead, they made decisions that would enable them to remain and grow in their chosen technical or functional fields.

MANAGERIAL COMPETENCE Other people showed a strong motivation to become managers, and their career experience enabled them to believe they had the skills and values required. A management position of high responsibility is their ultimate goal. When pressed to explain why they believed they had the skills necessary to gain such positions, many in Schein's research sample answered that they were qualified because of what they saw as their competencies in a combination of three areas: (1) *analytical competence* (ability to identify, analyze, and solve problems under conditions of incomplete information and uncertainty); (2) *interpersonal competence* (ability to influence, supervise, lead, manipulate, and control people at all levels); and (3) *emotional competence* (the capacity to be stimulated by emotional and interpersonal crises rather than exhausted or debilitated by them, and the capacity to bear high levels of responsibility).

CREATIVITY Some of the graduates had become successful entrepreneurs. To Schein these people seemed to have a need "to build or create something that was entirely their own product—a product or process that bears their name, a company of their own, or a personal fortune that reflects their accomplishments." For example, one graduate had become a successful purchaser, restorer, and renter of townhouses in a large city; another had built a successful consulting firm.

AUTONOMY AND INDEPENDENCE Some seemed driven by the need to be on their own, free of the dependence that can arise when a person elects to work in a large organization where promotions, transfers, and salary decisions make them subordinate to others. Many of these graduates also had a strong technical/functional orientation. Instead of pursuing this orientation in an organization, they had decided to become consultants, working either alone or as part of a relatively small firm. Others had become professors of business, freelance writers, and proprietors of a small retail business.

SECURITY A few of the graduates were mostly concerned with long-run career stability and job security. They seemed willing to do what was required to maintain job security, a decent income, and a stable future in the form of a good retirement program and benefits. For those interested in *geographic security*, maintaining a stable, secure career in familiar surroundings was generally more important than pursuing superior career choices, if choosing the latter meant injecting instability or insecurity into their lives by forcing them to pull up roots and move to another city. For others, security meant *organizational security*. They might today opt for government jobs, where tenure still tends to be a way of life. They were much more willing to let their employers decide what their careers should be.

ASSESSING CAREER ANCHORS To help you identify career anchors, take a few sheets of blank paper and write out your answers to the following questions:[174]

1. What was your major area of concentration (if any) in high school? Why did you choose that area? How did you feel about it?
2. What is (or was) your major area of concentration in college? Why did you choose that area? How did you feel about it?
3. What was your first job after school? (Include military if relevant.) What were you looking for in your first job?
4. What were your ambitions or long-range goals when you started your career? Have they changed? When? Why?
5. What was your first major change of job or company? What were you looking for in your next job?
6. What was your next major change of job, company, or career? Why did you initiate or accept it? What were you looking for? (Do this

for each of your major changes of job, company, or career.)

7. As you look back over your career, identify some times you have especially enjoyed. What was it about those times that you enjoyed?
8. As you look back, identify some times you have not especially enjoyed. What was it about those times you did not enjoy?
9. Have you ever refused a job move or promotion? Why?
10. Now review all your answers carefully, as well as the descriptions for the five career anchors (technical/functional competence, managerial competence, creativity and independence, autonomy, security). Based on your answers to the questions, rate, for yourself, each of the anchors from 1 to 5. 1 equals low importance, 5 equals high importance.

Technical/functional competence _____
Managerial competence _____
Creativity and independence _____
Autonomy _____
Security _____

IDENTIFY HIGH-POTENTIAL OCCUPATIONS Learning about your skills and interests is only step one in choosing an occupation. You also have to identify those occupations that fit your occupational orientations, skills, career anchors, and occupational preferences, and that are (preferably) in high demand in the years to come.

Here, the U.S. Department of Labor's online *Occupational Outlook Handbook* (https://www.bls.gov/ooh/) is updated each year, and provides detailed descriptions and information on hundreds of occupations.[175] O*NET (https://www.onetonline.org/) provides occupational demand projections. Another site here is https://www.ncda.org/aws/NCDA/pt/sp/resources.

Finding the Right Job

Your next step is to find a job that you want, in the company and locale you want.

Before leaving a current job, make sure leaving is what you want. Many people, dissatisfied at work, assume it must be the job or the occupation. But why switch from being a lawyer to a teacher, when it's not the profession but your law firm's 80-hour weeks that are the problem?

One must use a process of elimination. For example, you may like your occupation and employer, but not how your specific job is structured. Others may find their employers' ways of doing things are the problem. Or, it may in fact be the occupation.

In any case, the solution should fit the cause. For example, if, after thinking it through, you are satisfied with your occupation and where you work, but not with your job as it's organized now, try reconfiguring it. For example, seek to delegate or eliminate job functions you least prefer; volunteer for new duties; seek out a challenging "stretch assignment"; even "decluttering" your office may help.[176] If the employer is the problem, look elsewhere.

If you're involuntarily out of work for more than a few years, perhaps take extra care. One study followed a group of workers, some of whom became and stayed unemployed. These unemployed workers' personalities changed. In before-and-after testing, the long-term unemployed showed reduced levels of agreeableness, conscientiousness, and openness. Do get some supportive counselling if need be.[177]

Is This Really the Job for Me?

Anyone uncertain of what job they want, or considering a career change, can learn more before taking the leap.[178]

ASSESS YOUR OPTIONS For example, rather than just jumping into a new career, join LinkedIn professional groups for the occupation you're thinking of switching to. Following what they're saying can help clarify whether it's for you.

ASSESS YOURSELF You want to ensure that your prospective new occupation fits your skills and abilities. One way is by requesting a "360° assessment" from colleagues, friends, bosses, and former subordinates. Usually, the best way to do this is by retaining a third-party consultant. That person can compile and make the results anonymous, and help synthesize the results for you. Also consider using one of the many online self-assessment tools we've mentioned, for insights into the careers for which you're the best fit.[179]

TEST OUT THE JOB For example, take an online course in the field, not so much to accumulate credits but to make sure it's what you like to do.

NETWORK Use tools like LinkedIn or Twitter to build virtual relationships with people in the companies where you'd like to work. Before doing so, review your own social media profile (including on LinkedIn), to make sure it fits your career goals.

THE MBA Many college grads, particularly after a few years working, consider getting an MBA. Each person needs to make that decision on their own. However there are several situations that might make getting an MBA more attractive.[180] One is if you're successful but don't think your career is moving fast enough. Another is that for some careers—such as on Wall Street—getting an MBA can be important to advancement. Or, you may be in one career track (such as in publishing) but want to jump to another (such as consulting). Here, getting an MBA not only gives you new skills. It also facilitates redirecting your career path and starting a new career from scratch.

Job Search Techniques

Many people send out hundreds of resumes and get few replies. As we saw in Chapters 4 (Recruiting) and 5 (Selection), online ads attract huge numbers of applicants and use software to screen out almost all of them.

As a result, most people seek jobs in a manner that's almost exactly opposite to the approach most experts deem best. For example, in surveys of human resource professionals, about 70% say the best way to get a job is through referrals, but less than 10% of job seekers see referrals as their best option. Instead they rely on online job boards, which HR professionals rank much lower. Use sites such as LinkedIn and Facebook to help build your network, and to publicize your availability to potential job referrers and personal contacts.[181]

PERSONAL CONTACTS *The best way to get job leads is usually through personal contacts (networking)*, such as friends, former colleagues, and relatives.[182] Let as many responsible people as possible know that you're looking for a job and the kind of job you want. (Beware, though, if you don't want your job search getting back to your current boss. If that's the case, then just choose two or three close friends and ask them to be discreet checking around for you.)

No matter how close your friends are to you, by the way, you do not want to impose on them—they're not an employment agency, remember. It's usually best to just ask them for the name of someone they think you should talk to. Then you do the heavy lifting.

SOCIAL MEDIA In one survey, about 90% of HR professionals surveyed said it was "very important" or "somewhat important" for job seekers to be on LinkedIn, about 83% said the same for being on the job hunter's professional or association site, and about 60% cited Facebook.[183]

Employers scour social media for recruits, so job seekers should make sure their names stand out. For example, create a Twitter presence. Those "Liking" a company on Facebook may receive early notice of job openings. Spend a few minutes each day on LinkedIn making new connections, and share links and advice with your LinkedIn network.[184] Join LinkedIn industry groups to build visibility. Make sure your résumé is in PDF format and readable on a phone screen. To bring yourself to recruiters' attention, follow up on comments they make on their blogs or on industry websites. *Social résumés* provide snapshots of who the job searcher is by combining text material, photos, and samples of a person's work in infographic résumés posted on social media such as Twitter, LinkedIn, and blogs.[185]

Finally, remember that prospective employers may Google you before extending the offer, and ask for access to your Facebook and LinkedIn pages. Be careful what's on them.

ONLINE JOB BOARDS AND EMPLOYER WEBSITES Most large job search sites such as Monster.com have local-area search capabilities. Useful open-job aggregator sites include Indeed.com and SimplyHired.com. Idealist.com is good for nonprofit jobs, and there's USAJobs for federal jobs.[186] Use *The Wall Street Journal*'s career web site (www.careerjournal.com) for career advice and insights. Most big-city newspapers also have their own (or links to) online local job listings. In addition to job boards like Monster and specialized ones, virtually all large companies, industries, and crafts have their own specialized sites. For example, the American Marketing Association (https://jobs.ama.org/) and Financial Executives International (www.financialexecutives.org/) have active job sites.

ANSWERING ADVERTISEMENTS Answering ads is a low-probability way to get a job, and this is particularly so as the level of jobs increases. Furthermore, applicant tracking services crunch through thousands of résumés in seconds, making it even harder to stand out by answering ads. Nevertheless, good sources of classified ads for professionals and managers include *The New York Times*, *The Wall Street Journal*, and specialized journals in your field that list job openings. All these sources also post the positions online, of course.

For application letters or résumés, be sure to create the right impression with the materials you submit; check the style, grammar, and neatness, and adapt your résumé to the job for which you are applying. In your cover letter or email, specifically address why your background and accomplishments fit the advertised position.

Be careful in replying to blind ads. Some recruiters and employers run ads even when no position exists just to gauge the market, and there is also some risk of blundering into responding to your own firm.

EMPLOYMENT AGENCIES are especially good at placing people in jobs paying up to about $90,000, but they can be useful for higher-paying jobs as well. The employer usually pays the fees. Many agencies focus on recruiting temporary help. Many others specialize in particular industries, such as accounting and finance.

Assuming you know the job you want, review a few back issues of your paper's Sunday classified ads and online sites to identify agencies that handle the positions you want. Approach three or four initially, preferably in response to specific ads, and avoid signing any contract that gives an agency the exclusive right to place you.

States' one-stop career centers can be helpful. In them, job seekers can not only apply for unemployment benefits, but also register with the state job service, talk to career counselors, use computers to write résumés and access the Internet, take tests, and use career libraries offering books and videos on various employment topics. In some centers job hunters can make use of free computers and photocopiers to facilitate job searches.

EXECUTIVE RECRUITERS Employers retain executive recruiters to seek out top talent for their clients; employers always pay any fees. Recruiters do not do career counseling, but if you know the job you want, it pays to contact a few (but they usually use their own contacts, and LinkedIn to find passive candidates). Send/email your résumé and a cover note summarizing your objective in precise terms, including job title and the size of company desired, work-related accomplishments, current salary, and salary requirements. (Beware, because some firms call themselves executive search or career consultants but do no searches: In return for an (often hefty) fee they help you manage your search. Remember that with an executive search firm you never pay a fee.)

CAREER COUNSELORS Career counselors will not help you find a job per se; rather, they specialize in aptitude testing, career counseling, and résumé preparation. Search under "Career Counseling" or "Vocational Guidance." Their services usually cost $500 or so and may include some psychological testing and interviews with an experienced career counselor. Check the firm's services, prices, and history as well as the credentials of the person you will be dealing with.

EXECUTIVE MARKETING CONSULTANTS Executive marketing consultants help manage your job-hunting campaign. They generally are not recruiters and do not have jobs to fill. Depending on the services you choose, your cost will range from $600 to $5,000 or (much) more. The process may involve months of weekly meetings. Services include résumé and letter writing, interview skill building, and developing a job-hunting campaign. Before approaching a consultant, it's advisable to do your own self-appraisal (as explained in this appendix) and read books like Richard Bolles's *What Color Is Your Parachute?*

Also do your due diligence, and remember these consultants are *not* recruiters and will not get you a job—you must do the legwork. Then check the Better Business Bureau, and decide which of these firms (if any) is for you.

WRITING YOUR RÉSUMÉ Your résumé usually still plays a big role in determining whether you get the interview. Of course, don't produce a slipshod résumé: Avoid overcrowded pages, hard-to-read copies, typographical errors, and other problems of this sort. And do not use a make-do résumé. Produce a new résumé for each job you are applying for, gearing your job objective and accomplishments to the job you want. Here are some résumé pointers, as offered by employment counselor Richard Payne and other experts.[187]

Start your résumé with your name, home and e-mail and website (if any) addresses, and home or cell phone number. Next, state your *job objective*. Gear this to the job you're applying for. It should summarize in one sentence the specific position you want, where you want to do it (type and size of company), and a special reason an employer might have for wanting you to fill the job. For example, "Marketing manager in a medium-size e-commerce company in a situation in which strong creative skills would be valuable."

For each of your previous jobs, write a paragraph that shows job title, whom (job title) you reported to, who reported to you, how many people reported to you, the operational and human resource budgets you controlled, and what your job entailed (in one sentence).

Your accomplishments should be the heart of your résumé. These show for each of your previous jobs: (1) a concrete action you took and why you took it and (2) the specific result of your action—the "payoff." For example, "As production supervisor, I introduced a new process to replace costly hand soldering of component parts. The new process reduced assembly time per unit from 30 to 10 minutes and reduced labor costs by over 60%." Use several of these statements for each job.

Keep your résumé to two pages or less, and list education, military service (if any), and personal background (hobbies, interests, associations) on the last page. For most job applications today, it's important that the résumé is electronically readable. Applicant tracking systems screen out résumés that don't seem to match (often based on the absence of certain key words). Ways to avoid that include:[188] *network* to find contacts in the company who can give your application an extra nudge; *include key words* and phrases from the job posting; don't just list what you did, list *results,* and quantify them; *camouflage* brief gaps between some jobs by listing years rather than years and months; and (if you can honestly do so), list your job titles so they show *increasing responsibility*.[189]

If you post your résumé online, experts suggest taking precautions. At a minimum, date your résumé (in case it lands on your boss's desk 2 years from now). Also insert a disclaimer forbidding unauthorized transmission by headhunters; consider posting a "confidential" resume on a job board listing your capabilities but not your name or employer—you can be reached via the job board. Scammers will use someone's online resume to pretend to be an employer, and then request bank account information "to facilitate salary direct deposits."[190]

ONLINE BIOS Employers often encourage or require their professionals and managers to post brief biographies on corporate intranets or websites. These bios let other employees know about their colleagues' expertise; they can also attract recruiters' inquiries. Tips for writing such bios include[191]

> ***Fill it with details.*** "The more information you enter, the more likely a person seeking someone with your background will find you."
> ***Avoid touchy subjects.*** For example, avoid religion and politics.
> ***Look the part.*** Your profile may require posting photos. If so, dress in professional attire.

Make it search friendly. Make sure your profile contains the key words you think someone searching for someone with your background and expertise would be looking for, such as *manager, supervisor*, or *engineer*.

Use abbreviations. Abbreviations are important. For example, someone searching the site might more readily punch in "MBA" than "Masters in Business Administration."

Say it with numbers. Describe specifically how your work has contributed to your current employer's and past employers' bottom lines.

Proofread. Carefully proofread your online profile, as you would your résumé.

Handling the Interview

You have done all your homework, and now you have a job interview scheduled. What must you do to excel in the interview? First review our "Interview Guide for Interviewees" in the appendix to Chapter 7. Then, here are other suggestions.

PREPARE Before the interview, learn about the employer, the job, and the people doing the recruiting. Search the Internet to find out what's happening in the industry. Know that you may have a "job tryout," in which you'll have to show how well you can do aspects of the job.[192] Many locales prohibit employers from asking applicants about their salary histories, but realistically be prepared to answer when the interviewer asks for your salary requirements.

FIRST IMPRESSIONS Interviewers usually jump to conclusions about candidates during the first few seconds of the interview. Therefore, you really do have just one chance to make a good first impression. Appropriate clothing, good grooming and posture, eye contact, a firm handshake, and energy are important.

UNCOVER THE INTERVIEWER'S NEEDS Spend as little time as possible answering your interviewer's first questions and as much time as possible getting the person to describe his or her needs—what the person is looking to get accomplished and the type of person needed. Use open-ended questions, such as "Could you tell me more about that?"

RELATE YOURSELF TO THE PERSON'S NEEDS Once you understand the person your interviewer is looking for and the sorts of problems he or she needs solved, you are in a good position to describe your own accomplishments in terms of the interviewer's needs.[193] Start by saying something like, "One of the problem areas you've indicated is important to you is similar to a problem I once faced." Then state the problem, describe your solution, and reveal the results.

MAKE A GOOD APPEARANCE AND SHOW ENTHUSIASM Appearance, a firm handshake, and visual cues such as looking the interviewer in the eyes are crucial. Remember that studies of interviews show that in almost 80% of the cases, interviewers make up their minds about the applicant during the first few moments of the interview. A good first impression may turn bad during the interview, but it is unlikely. Bad first impressions, however, are almost impossible to overcome.

NONVERBAL BEHAVIOR AND IMPRESSION MANAGEMENT Remember (Chapter 7) that your *non*verbal behavior will have a big impact on your interview rating. In one study, 23 of the 26 human resources specialists who saw the high-eye-contact, high-energy-level candidate would have invited him or her for a second interview. *None* who saw the low-eye-contact, low-energy-level candidate would have done so.

Similarly, **self-promotion** (**promoting one's own skills and competence**) is strongly related to the interviewer's perceptions of candidate–job fit. Some interviewees use "ingratiation" to persuade interviewers to like them: For instance, they praised the interviewers or agreed with their opinions, thus signaling they shared similar beliefs.

Finally, faced with the pleasant task of choosing between several job offers, your decision should of course involve more than pay.[194] One's career goals and career path are usually as or more important.

Patti McConville/Alamy Stock Photo

11 Establishing Strategic Pay Plans

WHERE ARE WE NOW . . .

Once you've appraised and coached your employees, they of course expect to be paid. Prudent employers don't set pay rates arbitrarily. Each employee's pay should make sense in terms of what other employees earn, and this requires a pay plan. The main purpose of this chapter is to show you how to establish a pay plan. The main topics we cover are **Basic Factors in Determining Pay Rates; Job Evaluation Methods; How to Create a Market-Competitive Pay Plan; Pricing Managerial and Professional Jobs; Contemporary Topics in Compensation;** and **Employee Engagement Guide for Managers**. The next chapter focuses specifically on pay-for-performance and incentive plans.

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

11-1 **List** the basic factors determining pay rates.

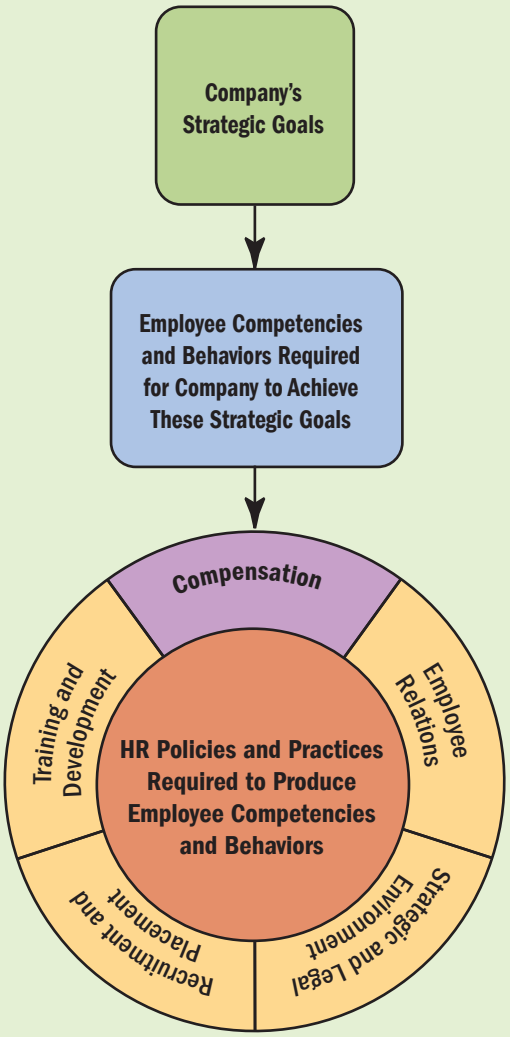
11-2 **Define and give** an example of how to conduct a job evaluation.

11-3 **Explain** in detail how to establish a market-competitive pay plan.

11-4 **Explain** how to price managerial and professional jobs.

11-5 **Explain** the difference between competency-based and traditional pay plans.

11-6 **Describe** the importance of total rewards for improving employee engagement.



In the grocery business, when Walmart opens a store, the nearby stores' usual reaction is to cut costs, particularly wages and benefits. So as Wegmans Food Markets, Inc., adds more stores and increasingly competes with Walmart, its management needs to decide this: Should we cut pay to better compete based on cost, or pursue a different compensation strategy?[1] We'll see what Wegmans did.

LEARNING OBJECTIVE 11-1

List the basic factors determining pay rates.

Basic Factors in Determining Pay Rates

employee compensation
All forms of pay or rewards going to employees and arising from their employment.

direct financial payments
Pay in the form of wages, salaries, incentives, commissions, and bonuses.

indirect financial payments
Pay in the form of financial benefits such as insurance.

Employee compensation includes all forms of pay going to employees and arising from their employment. It has two main components, **direct financial payments** (wages, salaries, incentives, commissions, and bonuses) and **indirect financial payments** (financial benefits like employer-paid insurance and vacations).

In turn, employers can make direct financial payments to employees based on increments of time or based on performance. Time-based pay still predominates. Blue-collar and clerical workers receive hourly or daily wages, for instance. Others, like managers or web designers, tend to be salaried and paid weekly, monthly, or yearly.

The second direct payment option is to pay for performance. For example, *piecework* ties compensation to the amount of production (or number of "pieces") the worker turns out. Sales commissions tie pay to sales. Many employers' pay plans combine time-based pay and pay for performance (incentives).

In this chapter, we explain how to formulate plans for paying employees a time-based wage or salary. Subsequent chapters cover performance-based financial incentives and bonuses (Chapter 12) and employee benefits (Chapter 13).

Several factors should influence any pay plan's design. These include strategic policy considerations, as well as equity, legal, and union considerations.

Aligning Total Rewards with Strategy

The compensation plan should first advance the firm's strategic aims—management should produce an *aligned reward strategy*. This means creating a compensation package that produces the employee behaviors the firm needs to achieve its competitive strategy.[2] Put another way, there should be a clear "line of sight" between each reward and specific business goals.

We will see that many employers formulate a total rewards strategy to support their strategic aims. *Total rewards* encompass traditional pay, incentives, and benefits, but also "rewards" such as more challenging jobs (job design), career development, and recognition.

Table 11-1 lists illustrative questions to ask when crafting a strategy-oriented pay policy.

TABLE 11-1 Do Our Compensation Policies Support Our Strategic Aims?

- What are our strategic aims?
- What employee behaviors and skills do we need to achieve our strategic aims?
- What compensation policies and practices—salary, incentive plans, and benefits—will help to produce the employee behaviors we need to achieve our strategic aims?

HR in Action at the Hotel Paris Even a casual review by Lisa Cruz and the CFO made it clear that the Hotel Paris's compensation plan wasn't designed to support the firm's new strategic goals. The case at the end of this chapter explains what they did.

Equity and Its Impact on Pay Rates

In studies at Emory University, researchers investigated how capuchin monkeys reacted to inequitable pay. Some monkeys got sweet grapes in return for trading pebbles; others got cucumber slices. If a monkey receiving a cucumber slice saw a neighbor get grapes, it slammed down the pebble or refused to eat.[3] It seems even lower primates may demand fair treatment in pay.

Among humans, too, *the equity theory of motivation* postulates that people are motivated to maintain a balance between what they perceive as their contributions and their rewards. Equity theory states that if a person perceives an inequity, a tension or drive will develop that motivates him or her to reduce the tension and perceived inequity. Research tends to support equity theory, particularly as it applies to those underpaid.[4] For example, in one study, turnover of retail buyers was significantly lower when the buyers perceived fair treatment in rewards and in how employers allocated rewards.[5] However overpaying can sometimes backfire, too, perhaps "due to feelings of guilt or discomfort."[6]

In compensation, one can address *external, internal, individual*, and *procedural* equity.[7]

- ***External equity*** refers to how a job's pay rate in one company compares to the job's pay rate in other companies.
- ***Internal equity*** refers to how fair the job's pay rate is when compared to other jobs within the same company (for instance, is the sales manager's pay fair, when compared to what the production manager earns?).
- ***Individual equity*** refers to the fairness of an individual's pay as compared with what his or her coworkers are earning for the same or very similar jobs within the company, based on each person's performance.
- ***Procedural equity*** refers to the "perceived fairness of the processes and procedures used to make decisions regarding the allocation of pay."[8]

Managers address equity issues in various ways. They use salary surveys (surveys of what other employers are paying) to monitor and maintain external equity. They use job analysis and comparisons of each job ("job evaluation," discussed below) to maintain internal equity. They use performance appraisal and incentive pay to maintain individual equity. And they use communications, grievance mechanisms, and employees' participation to help ensure that employees view the pay process as procedurally fair. Some firms administer attitude surveys to monitor employees' pay satisfaction. Questions typically include, "How satisfied are you with your pay?" and "What factors do you believe we used to determine your pay?"[9]

"Open pay" policies—listing what everyone earns—may help reduce inequities (such as the gender pay gap), but can cause other disagreements.[10] Some firms therefore maintain pay rate secrecy.[11] The research concerning pay secrecy is inconclusive, and most employers don't have open pay policies.[12] However, in one study, pay transparency reduced wage discrepancies, and improved pay satisfaction and affective commitment.[13]

The federal government mandates pay transparency for all businesses having contracts with it.[14] And of course for external equity, online pay sites like Salary.com preclude secrecy. Short of "open pay," some experts advise at least explaining how the company computes compensation.[15] (Federal law does mandate transparency on one compensation issue. Under the Dodd–Frank Act the employer must disclose its median employee to CEO pay ratio.)[16]

Davis-Bacon Act (1931)
A 1931 law that sets wage rates for laborers employed by contractors working for the federal government.

Walsh-Healey Public Contract Act (1936)
A 1936 law that requires minimum wage and working conditions for employees working on any government contract amounting to more than $10,000.

Title VII of the 1964 Civil Rights Act
This act makes it unlawful for employers to discriminate against any individual with respect to hiring, compensation, terms, conditions, or privileges of employment because of race, color, religion, sex, or national origin.

Fair Labor Standards Act (1938)
This 1938 act provides for minimum wages, maximum hours, overtime pay, and child labor provisions (these prohibit employing minors 16–18 years old in hazardous occupations, and restricts employment of those under 16). The FLSA, amended many times, covers most employees.

Legal Considerations in Compensation

Employers do not have free rein in designing pay plans. Various laws specify things like minimum wages, overtime rates, and benefits.[17] For example, the **1931 Davis-Bacon Act** lets the secretary of labor set wage rates for laborers and mechanics employed by contractors working for the federal government. The **1936 Walsh-Healey Public Contract Act** sets basic labor standards for employees working on any government contract that amounts to more than $10,000. It contains minimum wage, maximum hour, and safety and health provisions, and requires time-and-a-half pay for work over 40 hours a week. **Title VII of the 1964 Civil Rights Act** makes it unlawful for employers to discriminate against any individual with respect to hiring, compensation, terms, conditions, or privileges of employment because of race, color, religion, sex, or national origin.[18] We'll look next at other important compensation-related laws.

THE 1938 FAIR LABOR STANDARDS ACT The **Fair Labor Standards Act**, originally passed in 1938 and since amended many times, contains minimum wage, maximum hours, overtime pay, equal pay, record-keeping, and child labor provisions that are familiar to most working people.[19] It covers virtually all U.S. workers engaged in the production and/or sale of goods for interstate and foreign commerce. In addition, agricultural workers and those employed by certain larger retail and service companies are included. State fair labor standards laws cover most employers not covered by the Fair Labor Standards Act (FLSA).[20]

OVERTIME One familiar provision governs *overtime pay*. It says employers must pay overtime at a rate of at least one-and-a-half times normal pay for any hours worked over 40 in a workweek. Thus, if a worker covered by the act works 44 hours in one week, that person must be paid for 4 of those hours at a rate equal to one-and-a-half times the hourly or weekly base rate the person would have earned for 40 hours.[21] For example, if the person earns $12 an hour (or $480 for a 40-hour week), they would be paid at the rate of $18 per hour ($12 times 1.5) for each of the 4 overtime hours worked, or $72 ($18 times 4) for the extra 4 hours. If the employee instead receives time off for the overtime hours, the employer must compute the number of hours granted off at the one-and-a-half-times rate (6 hours off for the 4 hours of overtime in our case), in lieu of overtime pay. The FLSA mandates special damages against employers who pressure workers to work extra hours unpaid.[22]

THE WORKDAY Employers should be vigilant for employees who arrive early or leave late, lest the extra time spent on the property obligate it to compensate the employee for that time. For example, a diligent employee may get dropped off at work early and spend, say, 20 minutes before his or her day actually starts doing work-related chores, like compiling a list of clients to call that day. Tyson Foods recently paid over $12 million to resolve suits by workers who said they should have been paid for time spent putting on and removing their protective work gear.[23] While there is no hard and fast rule, some courts follow the rule that employees who arrive 15 or more minutes early are presumed to be working unless the employer can prove otherwise.[24] If using time clocks, employers should instruct employees not to clock in more than 5–10 minutes early (or out 5–10 minutes late).

Smart phones give employers further reason to meticulously record workers' hours. A Department of Labor app lets employees track their work hours.[25] The Chicago Police Department distributed smart phones to its officers. One officer subsequently sued, claiming he wasn't paid overtime for the hours he spent using his smart phone off the clock. Vendors such as Pacific Timesheet (www.pacifictimesheet.com) provide mobile payroll time sheets.[26] Outside the office, employees can fill these in via their smart phones.[27] New time clocks reduce "buddy punching" with instant photos and biometric sensors.[28]

THE MINIMUM WAGE The FLSA also sets a *minimum wage*. This sets a floor for employees covered by the act (and usually bumps up wages for most workers when Congress raises the minimum). The minimum wage was $7.25 in 2022. Many states have their own minimum wage. For example, the minimum wage recently was $14.00 in California and $14.25 in Massachusetts.[29] Various cities have their own (higher) minimum wages. New York City instituted a $15.00 minimum wage a few years ago; Uber-type drivers, however, must earn a minimum of $17.22 per hour after expenses.[30] Workers on federal contracts earn a minimum of $10.60 per hour.[31]

Some economists argue that higher minimum wages reduce the chances that lower-wage workers (like younger people) will get hired. However competitive labor markets and pressures for equitable pay have prompted many employers to pay above the minimum. Walmart said it would pay all its U.S. hourly workers at least $11 per hour. McDonald's said it would raise its minimum wage to at least one dollar more than the local municipalities' minimum wage in all company-owned stores.[32]

EXEMPT/NONEXEMPT Specific categories of employees are *exempt* from the FLSA or certain provisions of the act, and particularly from the act's overtime provisions: they are "exempt employees." A person's exemption depends on his or her responsibilities, duties, and salary. Bona fide executive, administrative (like office managers), and professional employees (like architects) are generally exempt from the minimum wage and overtime requirements of the act.[33]

Which employees are exempt, or non-exempt? There are three things to consider (as of 2022). First, if the employee earns less that $684 per week (or $35,568 per year) that person is probably *not* exempt. Second, if the person does earn at least $684 per week or $35,568 per year and is salaried, and performs one or more professional, supervisory, or administrative duties, that person is probably exempt. Third, if the person is a "highly compensated" employee (earns at least $107,432 dollars per year) then the person is probably exempt.[34] With more employers using performance-based pay, the new DOL rules also let employers use nondiscretionary bonuses and incentive pay for up to 10% of the $107,432.[35] Many expect the DOL to further raise the $684 to $913 per week ($47,476 per year).[36] Figure 11-1 lists some examples of typically exempt and nonexempt jobs.

FIGURE 11-1 Some Typical Exempt, Nonexempt Job Titles

EXEMPT	NONEXEMPT
Lawyers	Paralegals
Medical doctors	Accounting clerks
Dentists	Bookkeepers
Engineers (with degrees)	Licensed practical nurses
Teachers	Clerical employees
Scientists	Lab technicians
Registered nurses	
General managers	
Pharmacists	
Administrative employees*	

*The administrative exemption is designed for r elatively high-level employees whose main job is to "keep the business running." Examples of administrative functions, whose high-level employees may typically be exempt, include labor relations and personnel (human resources employees), payroll and finance (including budgeting and benefits management), records maintenance, accounting and tax, marketing and advertising (as differentiated from direct sales), quality control, public relations (including shareholder or investment relations, and government relations), legal and regulatory compliance, and some computer-related jobs (such as network, Internet, and database administration).

If an employee is exempt from the FLSA's minimum wage provisions, then that person is also exempt from its overtime pay provisions. However, certain employees are *always* exempt from overtime pay provisions. They include, among others, agricultural employees, live-in household employees, taxi drivers, and motion picture theater employees.[37]

Identifying exemptions is tricky. As noted, some jobs—for example, top managers and lawyers—are clearly exempt, while others—such as office workers earning less than $35,568 per year—are clearly nonexempt. But beyond that, one should review the job before classifying it as exempt or nonexempt. Figure 11-2 presents a procedure for making this decision. Make sure, for instance, that the job currently does in fact require, say, an exempt-type supervisory duty.[38] (The Department of Labor has an online FLSA Overtime Calculator Advisor people can use to expedite determining overtime pay, if any, for a job).[39]

FLSA exemption lawsuits are on the rise. "Supervisors" are saying they're not exempt because they don't really supervise two or more employees.[40] And the U.S. Supreme Court held that drug company sales reps who call on doctors are FLSA-exempt outside salespersons.[41]

Equal Pay Act
A 1963 amendment to the Fair Labor Standards Act designed to require equal pay for women doing the same work as men.

1963 EQUAL PAY ACT The **Equal Pay Act**, an amendment to the Fair Labor Standards Act, states that employees of one sex may not be paid wages at a rate lower than that paid to employees of the opposite sex for doing roughly equivalent work.

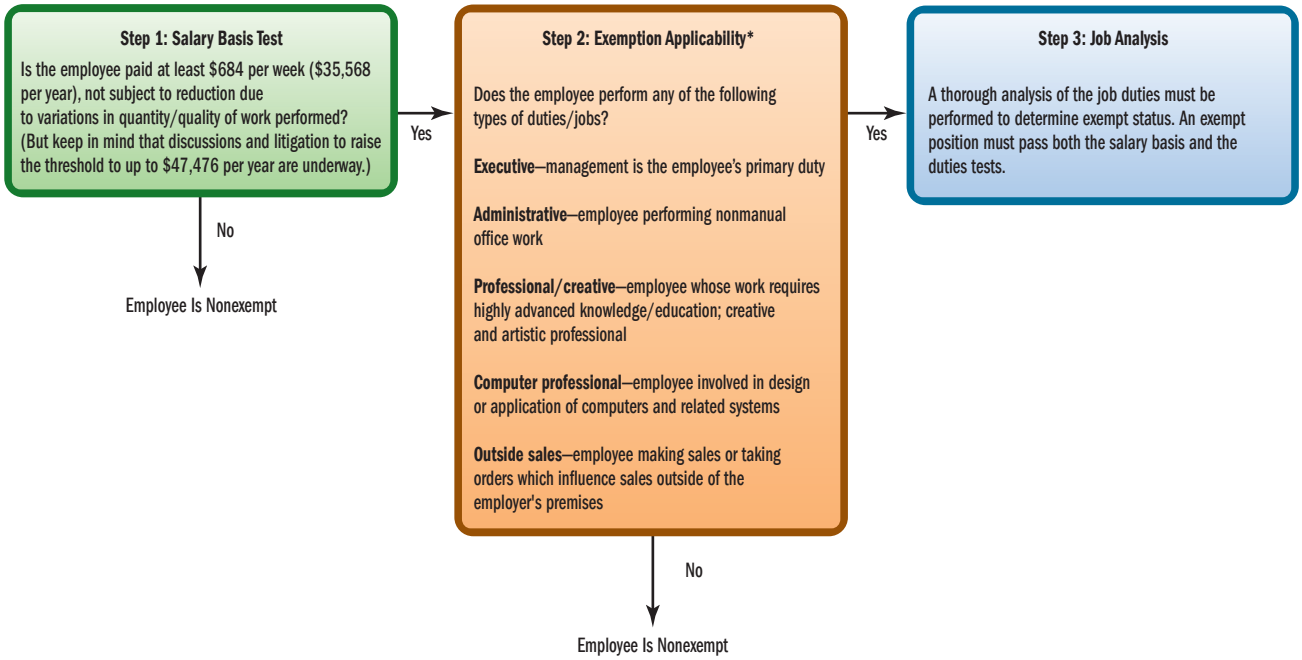


FIGURE 11-2 Who Is Exempt?; Who Is Not Exempt?

*Also note that *any* employee earning at least $107,432 per year is probably exempt.
Sources: Based on www.flsa.com/coverage.html; https://www.dol.gov/agencies/whd/fact-sheets/23-flsa-overtime-pay; https://www.dol.gov/agencies/whd/compliance-assistance/handy-reference-guide-flsa#8, all accessed April 3, 2022.

Specifically, if the work requires equal skills, effort, and responsibility and involves similar working conditions, employees of both sexes must receive equal pay, unless the differences in pay stem from a seniority system, a merit system, the quantity or quality of production, or "any factor other than sex."

Employee Retirement Income Security Act (ERISA)
The 1974 law that provides government protection of pensions for all employees with company pension plans. It also regulates vesting rights (employees who leave before retirement may claim compensation from the pension plan).

1974 EMPLOYEE RETIREMENT INCOME SECURITY ACT Aimed at protecting employees' pensions, the **Employee Retirement Income Security Act (ERISA)** provides for the creation of government-run, employer-financed corporations to protect employees against the failure of their employers' pension plans. It also sets regulations regarding vesting rights (*vesting* refers to the equity or ownership the employees build up in their pension plans should their employment terminate before retirement). ERISA also regulates *portability rights* (the transfer of an employee's vested rights from one organization to another). It also contains fiduciary standards to prevent dishonesty in pension plan funding.

OTHER LEGISLATION AFFECTING COMPENSATION Various other laws influence compensation decisions. For example, the *Age Discrimination in Employment Act* prohibits age discrimination against employees who are 40 years of age and older in all aspects of employment, including compensation.[42] The *Americans with Disabilities Act* prohibits discrimination against qualified persons with disabilities in all aspects of employment. The *Family and Medical Leave Act* aims to entitle eligible employees, both men and women, to take up to 12 weeks of unpaid, job-protected leave for the birth of a child or for the care of a child, spouse, or parent. And various executive orders require employers that are federal government contractors or subcontractors to not discriminate in certain employment areas, including compensation.

Each state has its own *workers' compensation laws*. Among other things, these aim to provide prompt, sure, and reasonable income to victims of work-related accidents. The *Social Security Act of 1935* (as amended) provides for unemployment compensation for workers unemployed through no fault of their own for up to 26 weeks, and for retirement benefits. (We'll discuss Social Security benefits in a later chapter.) The federal wage garnishment law limits the amount of an employee's earnings that employers can withhold (garnish) per week, and protects the worker from discharge due to garnishment.

Know Your Employment Law: Independent Contractors

Whether someone is an employee or an *independent contractor* is a continuing concern for employers.[43] Why claim that the worker is an independent contractor? Because the FLSA's overtime and most other requirements do not apply. The employer need not pay unemployment compensation, payroll taxes, Social Security taxes, or city, state, and federal income taxes or compulsory workers' compensation for that worker.

THE INDEPENDENT CONTRACTOR The problem is that many so-called independent contractor relationships aren't independent contractor relationships. In general, an individual is an independent contractor if the payer has the right to control or direct only the result of the work and not what will be done and how it will be done.[44] However, there is no single rule or test. Instead, courts look at the total situation. The major consideration is this: The more the employer controls what the worker does and how the worker does it, the more likely it is that the courts will find the worker to be an employee, not an independent contractor. Figure 11-3 lists some factors courts will consider. The IRS lists rules at its website.[45] Uber, for instance, faces lawsuits that its drivers are employees, not independent contractors.

FIGURE 11-3 Independent Contractor or Employee Checklist

Source: Adapted from information in IRS, Employer's Supplemental Tax Guide, https://www.irs.gov/pub/irspdf/p15a.pdf, accessed June 6, 2017; https://www.irs.gov/pub/irs-pdf/p5520.pdf and https://www.irs.gov/taxtopics/tc762, accessed April 3, 2022.

The main question is, how much control does the employer exert over the person at work? Facts that provide evidence of the degree of control/independence fall into three categories: behavioral control, financial control, and relationship of the parties. Affirmative answers below generally suggest "independent contractor."

Behavioral control: Does the business direct and control how the worker does the task, such as:	**Independent Contractor**	**Employee**
1. When and where to do the work.		
2. What tools or equipment to use.		
3. What workers to hire or to assist with the work.		
4. Where to purchase supplies and services.		
5. Whether the business has retained the right to control the details of a worker's performance or instead has given up that right.		
Financial control: Does the business control the business/financial aspects of the worker's job, such as:		
6. The extent to which the worker has unreimbursed business expenses.		
7. The extent of the worker's investment.		
8. The extent to which the worker makes his or her services available to other businesses in the relevant market.		
9. Whether the worker is not generally guaranteed a regular wage amount for an hourly, weekly, or other period of time.		
10. The extent to which the worker can realize a profit or loss.		
Questions regarding the parties' relationship include:		
11. Whether the business does not provide the worker with employee-type benefits, such as insurance, a pension plan, vacation pay, or sick pay.		
12. Whether there's no expectation that the relationship will continue indefinitely, rather than for a specific project or period.		

To minimize the risks of independent contractor misclassification, employers should execute written agreements with all independent contractors; you'll find samples online.[46] Furthermore, employers should not impose work rules on or attempt to prohibit independent contractors from working for others. They should require independent contractors to provide their own tools and to be separately incorporated business entities.[47]

Because the Affordable Care Act covers employers with 50 or more employees, government agencies have been looking more closely at employers' independent contractors. To minimize problems, some employers are having staffing companies supply more of their workforce, thus staying below the 50-employee limit.[48]

Are Gig Workers Employees or Independent Contractors?

Gig workers generally fall in one of three tax classifications. *1099-MISC miscellaneous income* independent contractors usually get paid by the project, and tend to be skilled workers. *Short term w-2* employees generally work several months per year, and tend to be younger and working seasonally or on call. Uber-type drivers and similar workers generally receive form *1099-K*, and file as independent contractors (although in some municipalities they are employees).[49]

A few years ago, Uber and Lyft drivers filed suit in California, demanding to be treated as employees rather than independent contractors. The companies contend they're independent contractors who can work (or not) as much as they want, start and stop when they want, and use their own cars. A judge ruled that Lyft had to reclassify its California drivers as employees rather than independent contractors.[50]

Yet the answer isn't clear-cut. Although there's a lot "independent" about what the drivers do, the drivers' lawyers say that Lyft and Uber control what the drivers do at work. For example, algorithms control what rides the drivers can accept or decline, the routes they take, how much they earn, and even how they're evaluated (below an average rating of about 4.5 stars, a driver faces deactivation). Some cases settled out of court. Uber agreed to pay about $100 million to drivers in certain states; however, the settlement left the drivers as independent contractors.

Similar litigation continues.[51] Two federal appellate courts held that some FedEx drivers were employees, not independent contractors. In another case, an arbitrator ruled Uber drivers were independent contractors.[52] Expect more lawsuits.

Party people studio/Shutterstock

Four managers discuss a print layout; one happens to use a wheelchair. Federal law prohibits discrimination against qualified persons with disabilities in all aspects of employment, including compensation.

Union Influences on Compensation Decisions

Unions and labor relations laws also influence pay plan design. The National Labor Relations Act of 1935 (Wagner Act) granted employees the right to unionize and to bargain collectively. Historically, the wage rate has been the main issue in collective bargaining. However, unions also negotiate other pay-related issues, including time off with pay, income security (for those in industries with periodic layoffs), cost-of-living adjustments, and healthcare benefits.

The Wagner Act created the National Labor Relations Board (NLRB) to oversee employer practices and ensure that employees receive their rights. To do this, employers must furnish the union with "information that is relevant and necessary" to the union performing its duties.[53] This would include giving the union a written explanation of the employer's "wage curves"—the graph that relates job to pay rate. The union is also entitled to know members' salaries.

Pay Policies

The employer's compensation strategy will manifest itself in *pay policies*. For example, it might be the policy of a top hospital like Johns Hopkins to pay nurses 20% above the market wage.

Employers need policies on a variety of compensation-related matters. These would include, for instance, how to set base salary (below, at, or above market rates); what employees (if any) can get stock options; how to award salary increases; how to handle leaves for military service, jury duty, and holidays; and whether to emphasize seniority or performance in awarding raises (for example, it takes 18 years for a U.S. federal employee to progress from step 1 to step 9 of the government's pay scale).

ALPHABET'S PAY POLICIES Google parent Alphabet uses its Googlegeist survey to monitor employees' attitudes about everything from supervision to pay; recently, pay satisfaction showed a big drop. Less than half of Googlers said their pay was competitive.[54]

At an all-hands meeting, Alphabet's chief compensation officer acknowledged the dissatisfaction. He also said that inflation was impacting Google employees, and that many were hearing anecdotal stories about competitors' offers. He acknowledged that the dissatisfaction was something Google would watch closely.

However, he also touched on Alphabet's pay policies. He pointed out that Alphabet typically focuses on 81 companies such as Amazon, Facebook, and Microsoft when formulating pay policies, because Google competes with them for employees. He also said that Alphabet's policy was to pay, on average, in the top 5 to 10%.

GEOGRAPHY How to account for geographic differences in cost of living is another big pay policy issue. For example, the average base pay for an office supervisor ranges from about $49,980 in Florida to $60,980 in New York.[55]

Employers handle cost-of-living differentials for transferees in several ways. One is to pay a differential for ongoing costs in addition to a one-time allocation. For example, one employer might pay a differential of $8,000 per year to people earning $55,000 to $65,000 whom it transfers from Atlanta to Minneapolis. Others simply raise the employee's base salary.

GLOBAL EXPATRIATE EMPLOYEES The question of cost-of-living differentials has particular significance to multinational firms, where costs range widely from, say, France to Zambia. The challenge is in maintaining the expatriate's standard of living abroad.[56]

How should multinationals compensate expatriate employees—those it sends overseas? Two basic international compensation policies are popular: *the balance sheet or home-based* plan, and the *host-based plan*.[57]

With a *home-based salary plan*, an international transferee's base salary reflects his or her home country's salary. The employer then adds allowances for cost-of-living differences—housing and schooling costs, for instance, to "make the employee whole." Among other advantages, this approach avoids having to change the employee's home-based salary.

In the *host-based plan*, the firm ties the international transferee's base salary to the host country's salary structure. In other words, the manager from New York who is sent to France would have his or her base salary changed to the prevailing base salary for that position in France, rather than keep the New York base salary. The firm often tacks on cost-of-living, housing, schooling, and other allowances here as well.

Most multinational enterprises set expatriates' salaries according to the *home-based salary plan*. (Thus, a French manager assigned to Bern by a U.S. multinational will generally have a base salary that reflects the salary structure in the manager's home country, in this case France.) In addition, the person typically gets allowances including cost-of-living, relocation, housing, education, and hardship allowances (for more challenging countries). The employer also usually pays any extra tax burdens resulting from taxes the manager is liable for over and above what that person would have to pay in the home country.

The New Normal box addresses related pay policy issues.

THE NEW NORMAL

Remote Worker Pay Policies

Remote work requires employers to formulate new pay policies. For example, Meta-Platform's Mark Zuckerberg thinks about half of his employees could be working remotely in several years.[58] That's excellent news for those employees, but may come with a drawback. Silicon Valley has one of the highest costs-of-living in the

United States; those moving away to work remotely may therefore face pay cuts, says Zuckerberg. A related issue with remote (and hybrid) work is calculating tax withholding. This is because employees may not only be living in a variety of states and municipalities (and possibly countries), but also moving frequently.[59]

With many employees working remotely, employers also need to guard against unauthorized work by nonexempt employees (you don't want them putting in unauthorized time, and demanding overtime pay for it).[60] Several policies are required. One is whether employees can use their own devices for tasks like company e-mail and social media (it's harder to supervise this). Another is a policy of not condoning off-the-clock work, unless approved in writing by the supervisor ahead of time. Employers also need a policy governing remote nonexempt employees' time reporting: here several self-reporting mobile apps are available, such as All Hours, and Timesheet Mobile. And to facilitate payments during the pandemic, many employers use phone apps that give employees immediate access to their pay.[61] The apps included DailyPay, and Visa Direct. ■

The Strategic Context: Wegmans Food Markets

Strategic compensation management means formulating a total rewards package that produces the employee skills and behaviors that the company needs to achieve its strategic goals.

Wegmans exemplifies this. It competes in the retail food sector. Profit margins are thin, and Amazon and Walmart drive costs down. The usual competitor's reaction is to cut employee benefits and costs.[62] However, Wegmans views its workforce as a big part of achieving their strategic aims of *optimizing service while controlling costs by improving systems and productivity*. For example, one dairy department employee designed a new way to organize the cooler, thus improving inventory control.[63]

Wegmans therefore offers above-market pay rates (" . . . we're committed to making sure our starting pay rates are equal to or greater than those of our competitors . . . "), affordable health insurance, premiums for Sunday work, and full benefits.[64]

Wegmans's pay policies thus aim to produce exactly the sorts of high-productivity employee behaviors the company needs to achieve its strategic aim of optimizing service.[65] For example, its employee turnover (about 6% for full-timers) is well below the industry's overall average of about 47%.[66] Its stores average about $950,000 a week in sales (compared to a national average of $361,564). That's about $49 million in sales annually, compared with a typical Walmart store's grocery sales of $23.5 million.[67] As Wegmans's human resource head has said, good employees ensure higher productivity, and that translates into better bottom-line results.[68]

LEARNING OBJECTIVE 11-2

Define and give an example of how to conduct a job evaluation.

Job Evaluation Methods

Employers use two basic approaches to setting pay rates: *market-based approaches* and *job evaluation methods*. Many firms, particularly smaller ones, simply use a *market-based* approach. Doing so involves conducting formal or informal salary surveys to determine what others in the relevant labor markets are paying for particular jobs. They then use these figures to price their own jobs. *Job evaluation methods* involve assigning values to each of the company's jobs. This process helps produce a pay plan in which each job's pay is equitable based on what other employers are paying for these jobs, *and* equitable based on each job's value to the employer.[69]

job evaluation
A systematic comparison done in order to determine the worth of one job relative to another.

Job evaluation is a formal and systematic comparison of jobs to determine the worth of one job relative to another. Job evaluation aims to determine a job's relative worth. Job evaluation eventually results in a *wage* or *salary structure* or hierarchy (this shows the pay rate for various jobs or groups of jobs). The basic principle of job evaluation is this: Jobs that require greater qualifications, more responsibilities, and more complex job duties should receive more pay than jobs with lesser requirements.[70] The basic job evaluation procedure is to compare jobs in relation to one another—for example, in terms of required effort, job complexity, and skills. Suppose you know (based on your job evaluation) the relative worth of the key jobs in your firm. You then

market-competitive pay plan
Pay plan where pay rates are equitable both internally (based on each job's relative value) and externally (in other words, when compared with what other employers are paying).

conduct a salary survey to see what others are paying for similar jobs. By combining the information from the job evaluation and from the salary survey, you are on your way to being able to create a **market-competitive pay plan**—one where your pay rates are equitable both internally (based on each job's relative value) and externally (in other words, when compared with what other employers are paying).

The trend seems to be toward putting more emphasis on market-based pricing. However internal equity and equal pay are still major concerns. Therefore employers continue to use job evaluation, but often in a more supporting role.[71]

AI With its ability to chomp through huge amounts of data, employers increasingly use artificial intelligence to improve their compensation decisions. Two trends—toward *paying for employees' skills* rather than for the duties of the particular job, and toward providing *ongoing performance feedback*—make AI particularly useful. AI systems can analyze almost instantaneously huge amounts of internal data to identify which skills are critical to performance, and what labor markets are now paying for those skills.[72]

As with other AI applications, bias is a concern. For example, an algorithm based on employees who came from particular schools might not apply as well to those from other schools. The employer should therefore view the AI output as recommendations, not decisions.

Compensable Factors

compensable factor
A fundamental, compensable element of a job, such as skills, effort, responsibility, and working conditions.

You can use two basic approaches to compare the worth of several jobs. First, you might simply decide that one job is more important than another is, and not dig any deeper. As an alternative, you could compare the jobs by focusing on certain basic factors (such as skill, and effort) the jobs have in common. Compensation management specialists call these **compensable factors**. They are the factors that establish how the jobs compare to one another, and that determine the pay for each job.

Some employers develop their own compensable factors. However, most use factors popularized by packaged job evaluation systems or by federal legislation. For example, the Equal Pay Act uses four compensable factors—skills, effort, responsibility, and working conditions. The method popularized by the Hay Group (now Korn Ferry) emphasizes three factors: know-how, problem solving, and accountability. Walmart uses knowledge, problem-solving skills, and accountability requirements.[73]

The job evaluation committee typically includes at least several employees, and has the important task of evaluating the worth of each job using compensable factors.

Ryan Lees/AGE Fotostock

Choosing compensable factors plays a big role in job evaluation. You usually compare each job with all comparable jobs using the same compensable factors. However, the compensable factors you use depend on the type of job and the job evaluation method. For example, "decision making" might make sense for a manager's job, but not for a cleaner's job.[74]

Preparing for the Job Evaluation

Job evaluation is a judgmental process and demands close cooperation among supervisors, HR specialists, and employees and union representatives. The initial steps include identifying the need for the program, getting cooperation, and then choosing an evaluation committee. The committee then performs the actual evaluation.

Identifying the need for job evaluation shouldn't be difficult. For example, dissatisfaction reflected in high turnover, work stoppages, or arguments may result from paying employees different rates for similar jobs. Managers may express uneasiness with an informal way of assigning pay rates.

Employees may fear that a systematic evaluation of their jobs may reduce their pay rates, so *getting employees to cooperate* in the evaluation is important. For example, you can tell employees that because of the impending job evaluation program, pay rate decisions will no longer be made just by management whim, and that no current employee's rate will be adversely affected because of the job evaluation.

Finally, *choose a job evaluation committee*. The committee usually consists of about five members, most of whom are employees. Management has the right to serve on such committees, but employees may view this with suspicion. However, a human resource specialist can usually be justified to provide expert assistance. Union representation is possible. In most cases, though, the union's position is that it is accepting the results of the job evaluation only as an initial decision and is reserving the right to appeal actual job pricing decisions through grievance or bargaining channels.[75] Once appointed, each committee member should receive a manual explaining both the job evaluation process and how to conduct the job evaluation.

benchmark job
A job that is used to anchor the employer's pay scale and around which other jobs are arranged in order of relative worth.

The evaluation committee then performs three main functions. First, it usually identifies 10 or 15 key **benchmark jobs**. These will be the first jobs they'll evaluate and will serve as the anchors or benchmarks against which the relative importance or value of all other jobs is compared. Next, the committee may select *compensable factors* (although the human resources department will usually choose these). Finally, the committee performs its most important function—actually *evaluating the worth of each job*. For this, the committee will probably use one of the following methods: ranking, job classification, or point method.

Job Evaluation Methods: Ranking

The simplest job evaluation method ranks each job relative to all other jobs, usually based on some overall factor like "job difficulty." There are several steps in the job **ranking method**.

ranking method
The simplest method of job evaluation that involves ranking each job relative to all other jobs, usually based on overall difficulty.

1. ***Obtain job information***. Job analysis is the first step. Here job descriptions for each job are prepared, and the information they contain about the job's duties is usually the basis for ranking jobs. (Sometimes job specifications are also prepared. However, the ranking method usually ranks jobs based on the whole job, rather than on several compensable factors. Therefore, job specifications, which tend to list job demands in terms of compensable factors such as problem solving, decision making, and skills, are not as important with ranking as they are for other job evaluation methods.)
2. ***Select and group jobs***. It is usually not practical to make a single ranking for all jobs in an organization. The usual procedure is to rank jobs by department or in clusters (such as factory workers or clerical workers). This removes the need for direct comparison of, say, factory jobs and clerical jobs.

3. ***Select compensable factors***. In the ranking method, it is common to use just one factor (such as job difficulty) and to rank jobs based on the whole job. However, regardless of the number of factors you choose, explain the definition of the factor(s) to the evaluators carefully so that they all evaluate the jobs consistently.
4. ***Rank jobs***. For example, each rater gets a set of index cards, each of which contains a brief description of a job. Then they arrange these cards from lowest to highest. Some managers use an "alternation ranking method" to make this procedure more accurate. Here you take the cards, first choosing the highest and the lowest, then the next highest and next lowest, and so forth, until you've ranked all the cards. Table 11-2 illustrates such a job ranking. Jobs in this small health facility rank from orderly up to office manager. The corresponding current pay scales are shown in the column following the job titles. (After ranking, it is possible to slot additional jobs based on their difficulty between those already ranked and to assign each an appropriate wage rate.) The ranked listing of jobs enables us to compare each job's rank with its current pay, and decide if what we are currently paying is internally equitable; we may adjust a job's pay up or down, based on this. Online programs (for example, go to www.hr-guide.com, click under "Job Evaluation, Ranking," and then click "Interactive Ranking Program") can help you rank (and check the rankings of) your positions.[76]
5. ***Combine ratings***. Usually, several raters rank the jobs independently. Then the rating committee (or the employer) can simply average the raters' rankings.
6. ***Compare current pay with what others are paying based on salary survey***. Next, we show on the same table (in the middle column) what others in the community are paying for similar jobs, based on a salary survey that we conduct. This helps us ensure that our pay will be *externally* equitable.
7. ***Assign a new pay scale***. Finally, we compare what we are currently paying for each job with what others are paying, and decide (in this case) to adjust our pay scale by raising what we pay for each job. The last column therefore shows our new pay scale.

This is the simplest job evaluation method, as well as the easiest to explain. And it usually takes less time than other methods.

Drawbacks derive more from how managers use ranking than from the method itself. For example, there's a tendency to rely too heavily on "guesstimates" (of things like overall difficulty), since ranking usually does not use compensable factors. Similarly, ranking provides no yardstick for quantifying the value of one job relative to another. For example, job number 4 may in fact be five times "more valuable" than

TABLE 11-2 Job Ranking at Jackson Hospital

Ranking Order	Our Current Annual Pay Scale	What Others Pay: Salary Survey Pay	Our Final Assigned Pay
1. Office manager	$43,000	$45,000	$44,000
2. Chief nurse	42,500	43,000	42,750
3. Bookkeeper	34,000	36,000	35,000
4. Nurse	32,500	33,000	32,750
5. Cook	31,000	32,000	31,500
6. Nurse's aide	28,500	30,500	29,500
7. Orderly	25,500	27,000	27,000

Note: After ranking, it becomes possible to slot additional jobs (based on overall job difficulty, for instance) between those already ranked and to assign each an appropriate wage rate.

job number 5, but with the ranking method all you know is that one job ranks higher than the other. Ranking is usually more appropriate for small employers that can't afford the time or expense of a more elaborate method.

The *factor comparison method* is a special ranking method. It requires ranking each of a job's "factors" (such as education required, experience, and complexity), and then adding up the points representing the number of "degrees" of each factor each job has. Employers seldom use it today.

Job Evaluation Methods: Job Classification

job classification (or job grading)
A method for categorizing jobs into groups.

classes
Grouping jobs based on a set of rules for each group or class, such as amount of independent judgment, skill, physical effort, and so forth, required. Classes usually contain similar jobs.

grades
A job classification system like the class system, although grades often contain dissimilar jobs, such as secretaries, mechanics, and firefighters. Grade descriptions are written based on compensable factors listed in classification systems.

grade definition
Written descriptions of the level of, say, responsibility and knowledge required by jobs in each grade. Similar jobs can then be combined into grades or classes.

Job classification (or job grading) is a simple, widely used job evaluation method in which raters categorize jobs into groups; all the jobs in each group are of roughly the same value for pay purposes. We call these groups **classes** if they contain similar jobs, or **grades** if they contain jobs that are similar in difficulty but otherwise different. Thus, in the federal government's pay grade system, a "press secretary" and a "fire chief" might both be graded "GS-10" (GS stands for "General Schedule"). On the other hand, in its job class system, the state of Florida might classify all "accountant IIs" in one class, all "maintenance engineers" in another, and so forth.

In practice, there are several ways to categorize jobs. One is to write class or grade summaries or descriptions (similar to job descriptions); you then place jobs into the classes or grades based on how well they fit these descriptions. Another is to write a set of compensable factor–based rules for each class (for instance, how much independent judgment, skill, and physical effort does the class of jobs require?). Then categorize each job according to these rules.

The usual procedure blends these two: the analysts choose compensable factors and then develop short class or grade descriptions that describe each class (or grade) in terms of the amount or level of the factors in those jobs. For example, the U.S. government's classification system uses eight compensable factors: (1) difficulty and variety of work, (2) supervision received and exercised, (3) judgment exercised, (4) originality required, (5) nature and purpose of interpersonal work relationships, (6) responsibility, (7) experience, and (8) knowledge required. Based on these compensable factors, raters write a **grade definition** like that in Figure 11-4. This one shows one grade description (for grade GS-7) for the federal government's pay grade system. Then the evaluation committee reviews all job descriptions and slots each job into its appropriate grade, by comparing each job description to the rules in each grade description. Thus, the federal government system classifies the positions *automotive mechanic, welder, electrician*, and *machinist* in grade GS-10.

The classification method has several advantages. The main one is that most employers usually end up grouping jobs into classes or grades anyway, regardless of the evaluation method they use. They do this to avoid having to price separately dozens or hundreds of jobs. Of course, the job classification automatically groups the employer's jobs into classes. The disadvantages are that it isn't easy to write the class or grade descriptions, and considerable judgment is required to apply them. Yet many employers use this method with success.

FIGURE 11-4 Example of a Grade Definition

Grade	Nature of Assignment	Level of Responsibility
GS-7	Performs specialized duties in a defined functional or program area involving a wide variety of problems or situations; develops information, identifies interrelationships, and takes actions consistent with objectives of the function or program served.	Work is assigned in terms of objectives, priorities, and deadlines; the employee works independently in resolving most conflicts; completed work is evaluated for conformance to policy; guidelines, such as regulations, precedent cases, and policy statements require considerable interpretation and adaptation.

Source: From "Grade Level Guide for Clerical and Assistance Work" from www.opm.gov/policy-data-oversight/classification-qualifications/classifying-general-schedule-positions/functional-guides/gscler.pdf, accessed April 2, 2022.

Job Evaluation Methods: Point Method

point method
The job evaluation method in which a number of compensable factors are identified and then the degree to which each of these factors is present on the job is determined.

The **point method's** overall aim is to determine the degree to which the jobs you're evaluating contain each of selected compensable factors. It involves identifying several compensable factors for the jobs, as well as the degree to which each factor is present in each job. Assume there are five degrees of the compensable factor "responsibility" a job could contain. Further, assume you assign a different number of points to each degree of each compensable factor. Once the evaluation committee determines the degree to which each compensable factor (like "responsibility" and "effort") is present in a job, it can calculate a total point value for the job by adding up the corresponding degree points for each factor. The result is a quantitative point rating for each job. The point method of job evaluation is the most popular job evaluation method today.[77]

"PACKAGED" POINT PLANS A number of groups (such as the Korn Ferry [formerly Hay Group], the National Electrical Manufacturer's Association, and the National Trade Association) have developed standardized point plans. Many thousands of employers use these systems. They contain ready-made factor and degree definitions and point assessments for a wide range of jobs. Employers can often use them with little or no modification.

Using job evaluation methods such as the point method can be time-consuming. Accumulating the information about "how much" of each compensable factor the job contains is a tedious process. The evaluation committees must debate the level of each compensable factor in each job. They then write down their consensus judgments and compute each job's point values or rankings. Some employers turn to computerized job evaluation systems such as Korn Ferry Hay Group's *Job Evaluation Manager*, and Mercer's *International Position Evaluation System*.[78]

LEARNING OBJECTIVE 11-3
Explain in detail how to establish a market-competitive pay plan.

How to Create a Market-Competitive Pay Plan

As we said, many firms simply price their jobs based on what other employers are paying—they just use a market-based approach. However, most employers also base their pay plans on job evaluation methods like those just described. These evaluations assign values (such as point values) to each job. This helps to produce a pay plan in which each job's pay is internally equitable, based, as it is, on the job's value to the employer (as measured, for instance, by how many points it warrants). However, even with the job evaluation approach, managers must adjust pay rates to fit the market.[79] After all, you want employees' pay to be equitable internally—relative to what their colleagues in the firm are earning—but also competitive externally—relative to what *other employers* are paying. In a *market-competitive pay plan* a job's compensation reflects the job's value in the company, as well as what other employers are paying for similar jobs in the marketplace. Because the point method (or "point-factor method") is so popular, we'll use it as the centerpiece of our step-by-step example for creating a market-competitive pay plan.[80] The 16 steps in creating a market-competitive pay plan begin with choosing benchmark jobs.

1. Choose Benchmark Jobs

Particularly when an employer has dozens or hundreds of different jobs, it's impractical and unnecessary to evaluate each of them separately. Therefore, the first step in the point method is to select benchmark jobs. Benchmark jobs are representative of the jobs the employer needs to evaluate. Like "accounting clerk" they should be common among employers (thus making it easier to survey what competitors are paying for similar jobs).[81]

2. Select Compensable Factors

The choice of compensable factors depends on tradition (as noted, the Equal Pay Act of 1963 uses four compensable factors: skill, effort, responsibility, and working conditions), and on strategic and practical considerations. For example, if your firm's competitive advantage is quality, you might substitute "responsible for quality" for working conditions, or simply add it as a fifth factor.[82] Similarly, using "working conditions" makes little practical sense for evaluating executive jobs.

The employer should carefully define each factor. This is to ensure that the evaluation committee members will each apply the factors with consistency. Figure 11-5 shows (on top) one such definition, in this case for the factor job complexity. The human resource specialist often draws up the definitions.

FIGURE 11-5 Illustrative Point Values and Degree Definitions for the Factor Job Complexity

Source: Copyright Gary Dessler, PhD.

Factor Definition: What Is Job Complexity? Job complexity generally refers to the amount of judgment, initiative, ingenuity, and complex data analysis that doing the job requires. To what extent does the person doing this job confront unfamiliar problems, deal with complex decisions, and have to exercise discretion? (Note that Job Complexity has a weighting of 60% relative to other factors).

Degree	Points	Job Complexity Degree Definitions: What to Look for in the Job
First	120	Here the job is routine and consists of repetitive operations requiring little or no choice of action and the automatic application of easily understood rules and procedures. For example, a filing clerk.
Second	240	Here the employee follows detailed instructions but may have to make limited decisions based on previously prescribed instructions which layout prescribed alternatives. For example, a billing clerk or a receptionist.
Third	360	Here the employee again follows detailed instructions but because the number of matters to consider is more varied, the employee needs to exhibit initiative and independent judgment, under direct supervision. For example, a nurse's aide.
Fourth	480	Here the employee can generally follow standard practices but the presence of nonroutine problems requires that the employee be able to use initiative and judgment to analyze and evaluate situations, possibly modifying the standard procedures to adjust to the new situations. For example, a nurse.
Fifth	600	On this job, the employee needs to use independent judgment and plan and perform complex work under only general supervision, often working independently toward achieving overall results. For example, medical intern.

3. Assign Weights to Compensable Factors

Having selected compensable factors, the next step is to determine the relative importance (or weighting) of each factor (for instance, how much more important is "skill" than "effort"?). This is important because for each cluster of jobs some factors are bound to be more important than others are. Thus, for executive jobs the "mental requirements" factor would carry far more weight than would "physical requirements." To assign weights, we assume we have a total 100 percentage points to allocate for each job. Then (as an illustration), assign percentage weights of 60% for the factor job complexity, 30% for effort, and 10% for working conditions.[83]

4. Convert Percentages to Points for Each Factor

Next, we want to convert the percentage weights we just assigned to each compensable factor into point values for each factor (this is, after all, the point method). It is traditional to assume we are working with a total of 1,000 points (although one could use some other figure). To convert percentages to points for each compensable factor, *multiply the percentage weight for each compensable factor (from the previous step) by 1,000*.[84] This will tell you the *maximum number of points* for each compensable factor. Doing so in this case would translate into $1,000 \times 0.60 = 600$ possible points for job complexity, $1,000 \times 0.30 = 300$ points for effort, and $1,000 \times 0.10 = 100$ points for working conditions.

5. Define Each Factor's Degrees

Next, split each factor into degrees, and define (write degree definitions for) each degree so that raters may judge the amount or degree of a factor existing in a job. Thus, for a compensable factor such as "job complexity" you might choose to have five degrees, ranging from "here the job is routine" to "uses independent judgment." (Our definitions for each degree are shown in Figure 11-5 under "Job Complexity Degree Definitions: What to Look for in the Job.") The number of degrees usually does not exceed five or six, and the actual number depends mostly on judgment. Thus, if all employees work either in a quiet, air-conditioned office or in a noisy, hot factory, then two degrees would probably suffice for the factor "working conditions." You need not have the same number of degrees for each factor, and you should limit degrees to the number necessary to distinguish among jobs.

6. Determine for Each Factor Its Factor Degrees' Points

The evaluation committee must be able to determine the number of points each job is worth. To do this, the committee must be able to examine each job and (from each factor's degree definitions) *determine what degree of each compensable factor* that job has. For them to do this, we must first assign points to *each degree of each compensable factor*. For example, in our illustration, we have five possible degrees of job complexity, and the job complexity compensable factor is worth up to 600 points maximum. In our case, we simply decide that the first degree level of job complexity is worth 120 (or one-fifth of 600) points, the second degree level is worth 240 points, the third degree level is worth 360 points, the fourth degree level is worth 480 points, and the fifth degree is worth the maximum 600 points (see Figure 11-5).[85] Do this for each factor (as in Table 11-3).

7. Review Job Descriptions and Job Specifications

The heart of job *evaluation* involves determining the amount or degree to which the job contains the selected compensable factors such as effort, job complexity, and working conditions. The team conducting the job evaluation will frequently do so by first reviewing each job's job description and job specification. As we explained in Chapter 4 (Job Analysis), it is through the job analysis that the manager identifies the job's duties and responsibilities and writes the job description and job specification. Ideally, the job analyst included, in the job description and specification, information about the compensable factors (such as job complexity) around which the employer plans to build its compensation plan.[86]

8. Evaluate the Jobs

Steps 1–7 provide us with the information (for instance, on points and degrees) based on which we can evaluate the jobs. The committee has also gathered the job descriptions and job specifications for the benchmark jobs they will focus on.

Then, from their review of each job description and job specification, the committee *determines the degree to which each compensable factor is present in each job*. Thus for, say, a job of master mechanic, the team might conclude (after studying the job description and job specification) that the master mechanic's job deserves the third-degree level of *job complexity* points, the first-degree level of *effort*, and the first-degree level of *working conditions*.

TABLE 11-3 Points Assigned to Factors and to Their Degrees

Factors	First-Degree Points	Second-Degree Points	Third-Degree Points	Fourth-Degree Points	Fifth-Degree Points
Job complexity (Total maximum points equal 600)	120	240	360	480	600
Effort (Total maximum points equal 300)	60	120	180	240	300
Working conditions (Total maximum points equal 100 points)	20	40	60	80	100

Knowing the job complexity, effort, and working conditions degrees for each job, *and knowing the number of points we previously assigned to each degree* of each compensable factor, we can now determine how many job complexity, effort, and working conditions points each benchmark job should contain. (We know the degree level for each factor for each job, so we merely check the corresponding points [see Table 11-3] that we previously assigned to each of these degrees.)

Finally, we add up these degree points for each job to determine each job's total number of points.[87] The master mechanic job gets 360 + 60 + 20 = 440 points from Table 11-3. Doing this enables us to list a hierarchy of jobs, based upon each job's points. We can soon turn to assigning wage rates to each job (step 9). But first, we should define market-competitive pay plan and wage curve.

What should the pay rate be for each job? Of course, jobs with more points should command higher pay. The question is what pay rate to use. Our company's current, "internal" pay rates? Or pay rates based on what the "external" market is paying?[88]

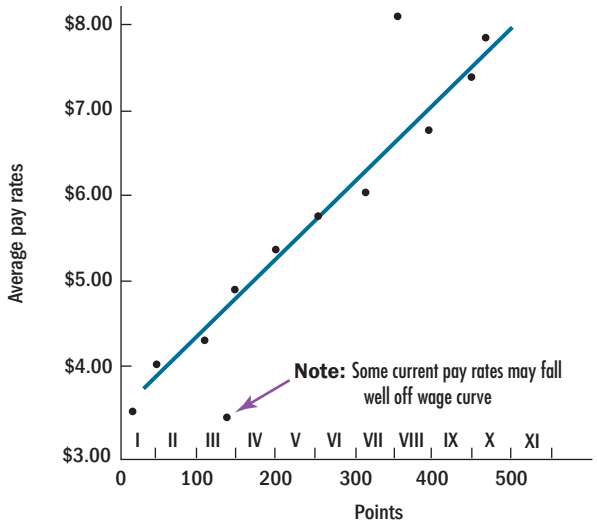
market-competitive pay system
A pay system in which the employer's actual pay rates are competitive with those in the relevant labor market.

With a **market-competitive pay system**, the employer's actual pay rates are competitive with those in the relevant labor market, as well as equitable internally.[89] Put simply, the basic approach is to compare what the employer is *currently* paying for each job ("internal pay") with what the market is paying for the same or similar job ("external pay"), and then to combine this information to produce a market-competitive pay system.

wage curve
Shows the relationship between the value of the job and the average wage paid for this job.

WAGE CURVES **Wage curves** play a central role in assigning wage rates to jobs. The wage curve typically shows the pay rates paid for jobs, relative to the points or rankings assigned to each job by the job evaluation. Figure 11-6 presents an example. Note that it shows pay rates for jobs on the vertical axis, and point values for these jobs along the horizontal axis. The purpose of the wage curve is to show the relationships between (1) the value of the job (expressed in points) as determined by one of the job evaluation methods and (2) the pay rates for the job. (We'll see that many employers may combine jobs into classes or grades. Here the wage curve would show the relationship between average pay rates for each grade, and each grade's average point value.) The pay rates on the wage curve are traditionally those now paid by the employer. However, if there is reason to believe the current pay rates are out of step with the market rates for these jobs, the employer will have to adjust them. One way to do this is to compare a wage curve that shows the jobs' *current* wage rates relative to the jobs' points, with a second curve that shows *market* wage rates relative to points. We do this as follows.

FIGURE 11-6 Plotting a Wage Curve

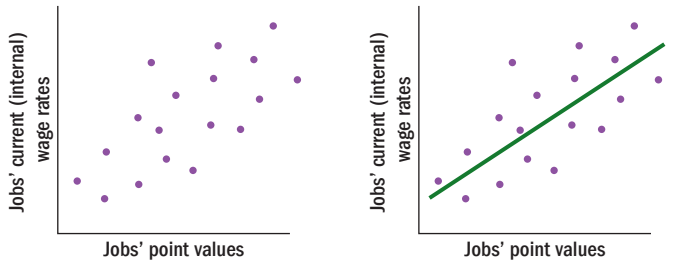


9. Draw the Current (Internal) Wage Curve

First, to study how each job's points relates to its current pay rate, we start by drawing an *internal wage curve*. Plotting each job's points and the wage rate the employer

is now paying for each job (or wage rates, if there are several for each job) produces a scatter plot as in Figure 11-7 (left). We now draw a wage curve (on the right) through these plots that shows how point values relate to current wage rates. We can draw this wage line by just estimating a line that best fits the plotted points (by minimizing the distances between the plots and the curve). Or we can use regression, a statistical technique. Using the latter will produce a current/internal wage curve that best fits the plotted points. In any case, we show the results in Figure 11-7 (right).[90]

FIGURE 11-7 The Current/ Internal Wage Curve



10. Conduct a Market Analysis: Salary Surveys

salary survey
A survey aimed at determining prevailing wage rates. A good salary survey provides specific wage rates for specific jobs. Formal written questionnaire surveys are the most comprehensive, but telephone surveys and newspaper ads are also sources of information.

Next, we must compile the information needed to draw an *external wage curve* for our jobs, based on what other employers are paying for similar jobs. **Salary surveys**—surveys of what others are paying—play a big role in pricing jobs.[91] Employers use salary surveys in three ways. First, they use survey data to price benchmark jobs. Benchmark jobs are the anchor jobs around which they slot their other jobs, based on each job's relative worth to the firm. Second, employers typically price 20% or more of their positions directly in the marketplace (rather than relative to the firm's benchmark jobs), based on a survey of what comparable firms are paying for comparable jobs. (Google might do this for jobs like systems engineer, whose salaries fluctuate widely and often.) Third, surveys also collect data on benefits like insurance, sick leave, and vacations for decisions regarding employee benefits.

Salary surveys can be formal or informal. *Informal* phone or Internet surveys are good for checking specific issues, such as when a bank wants to confirm the salary at which to advertise a newly open teller's job, or whether some banks are really paying tellers an incentive. Some large employers can afford to send out their own *formal* surveys to collect compensation information from other employers. These ask about things like number of employees, overtime policies, starting salaries, and paid vacations.

Many employers use surveys published by consulting firms, professional associations, or government agencies. For example, the U.S. Department of Labor's Bureau of Labor Statistics' (BLS) *National Compensation Survey (NCS)* provides comprehensive reports of occupational earnings, compensation cost trends, and benefits (www.bls.gov/bls/wages.htm). A consultant might charge $12,000 for its salary survey—a lot of money, but a tiny fraction of the millions a client with 5,000 or so employees pays in compensation.[92]

Detailed occupational earnings are available from the *National Compensation Survey* for over 800 occupations in the United States, calculated with data from employers in all industry sectors in every state and the District of Columbia (http://stats.bls.gov/oes/current/oes_nat.htm). The *Current Employment Statistics Survey* is a monthly survey of the payroll records of business establishments that provides data on earnings of production and nonsupervisory workers at the national level. This provides information about earnings as well as production bonuses, commissions, and cost-of-living increases. The *National Compensation Survey—Benefits* provides information on the share of workers who participate in specified benefits, such as healthcare, retirement plans, and paid vacations. These data also show the details of those benefits, such as amounts of paid leave. Internationally, the BLS reports comparative hourly compensation costs in local currencies and U.S. dollars for production workers and all employees in manufacturing in its international labor comparisons tables.

Private consulting and/or executive recruiting companies like Willis Towers Watson (www.wtwco.com/en-US), and Aon/Hewitt (www.aon.com) publish data covering compensation for top and middle management and members of boards of directors. Professional organizations like the Society for Human Resource Management and the Financial Executives Institute publish surveys of compensation practices among members of their associations.[93]

USING THE INTERNET TO DO COMPENSATION SURVEYS Internet-based tools make it easy for anyone to access published compensation survey information. Table 11-4 shows some popular salary survey websites.

Many of these sites, such as Salary.com, provide national salary levels for jobs that the site then arithmetically adjusts to each locale based on cost-of-living formulas. Sites like www.Indeed.com and www.ziprecruiter.com/ provide salary estimates for jobs in your locale. To get a real-time picture of what employers in your area are actually paying for, say, accounting clerks, it's useful to access the online Internet sites of one or two of your local newspapers.

TABLE 11-4 Some Pay Data Websites

Sponsor	Internet Address	What It Provides	Downside
Salary.com	www.salary.com	Salary by job and ZIP code, plus job and description, for hundreds of jobs	Adapts national averages by applying local cost-of-living differences
USA.gov	https://www.usa.gov/government-jobs	Salaries and wages for U.S. government jobs, by location	Limited to U.S. government jobs
JobStar	http://jobstar.org/tools/salary/sal-prof.php	Profession-specific salary surveys	Necessary to review numerous salary surveys for each profession
Indeed.com	https://www.indeed.com/career/salaries	Salaries by company and industry, plus career insights	Job listings may be somewhat limited compared to salary.com

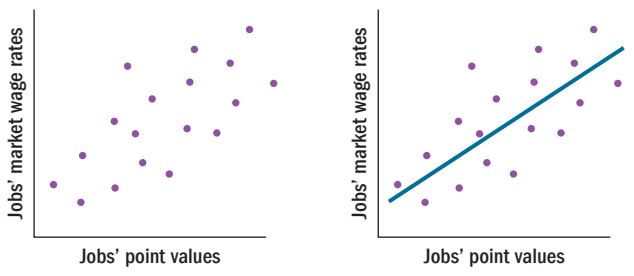
11. Draw the Market (External) Wage Curve

The current/internal wage curve from step 9 is helpful. For example, showing, as it does, how a job's current pay rate compares with its points helps the employer identify jobs for which pay rates are currently too high or too low, relative to other jobs in the company. (For example, if a job's current wage rate is well above the internal wage curve, it suggests that the present wage rate for that job is inequitably high, given the number of points we've assigned to that job.)

What the current (internal) wage curve does *not* reveal is whether our pay rates are too high, too low, or just right relative to what other firms are paying. For this, we need to draw a *market* or *external wage* curve.

To draw the market/external wage curve, we produce a scatter plot and wage curve as in Figure 11-8 (left and right). However, instead of using our firm's current wage rates, we use market wage rates (obtained from salary surveys). The market/external wage curve thereby compares our jobs' points with market pay rates for our jobs.

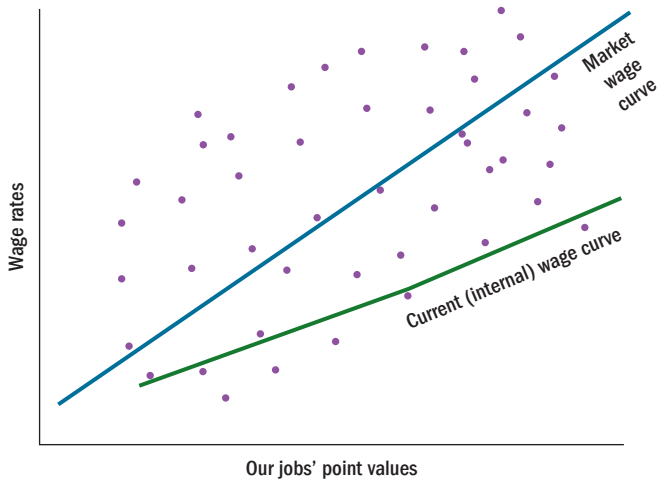
FIGURE 11-8 The Market/External Wage Curve



12. Compare and Adjust Current and Market Wage Rates for Jobs

How different are the market rates other employers are paying for our jobs and the current rates we are now paying for our jobs? To determine this, we combine both the current/internal and market/external wage rates and curves on one graph, as in Figure 11-9. The market wage curve might be higher than our current wage curve (suggesting that our current pay rates may be too low), or below our current wage curve (suggesting that our current wage rates might be too high). Or perhaps market wage rates are higher for some of our jobs and lower for others.[94]

FIGURE 11-9 Plotting Both the Market and Internal Wage Curves



Based on comparing the current/internal wage curve and market/external wage curve in Figure 11-9, we must decide whether to adjust the current pay rates for our jobs, and if so how. This calls for a policy decision by management. Strategic considerations influence this decision. Do our strategic aspirations suggest we should pay more, the same, or less than competitors? For example, we might decide to move our current internal wage curve up (and thereby give everyone a raise), or down (and thereby perhaps withhold pay increases for some time), or adjust the slope of the internal wage curve to increase what we pay for some jobs and decrease what we pay for others. In any case, the wage curve we end up with (the orange line in Figure 11-10) should now be equitable internally (in terms of the point value of each job) and equitable externally (in terms of what other firms are paying).[95]

13. Develop Pay Grades

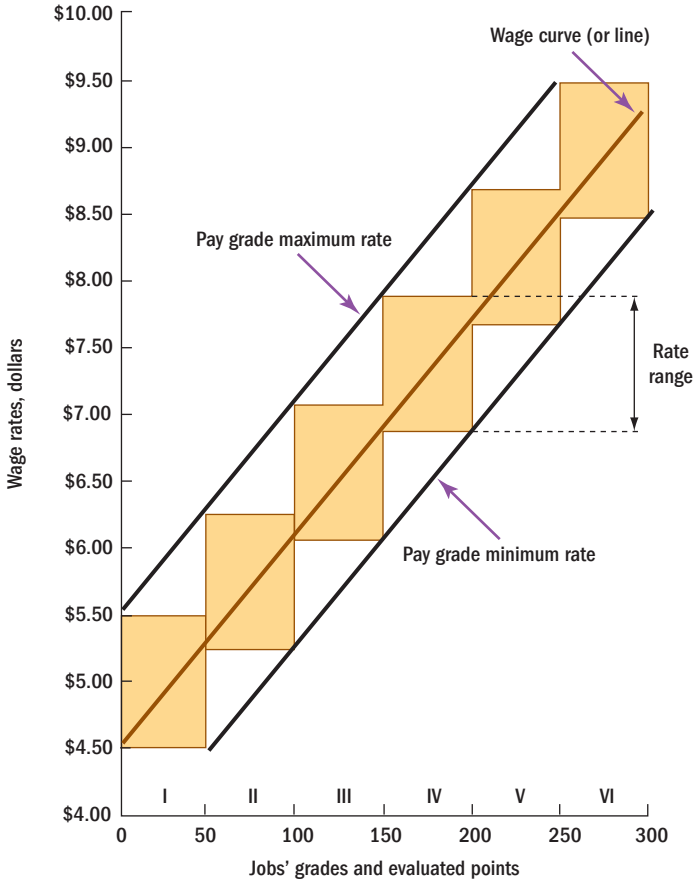
Employers typically group similar jobs (in terms of points) into grades for pay purposes. Then, instead of having to deal with hundreds of job rates, you might only have to focus on, say, pay rates for 10 or 12 pay grades. For example, Serco, a services firm that operates a London, England, light railway system, set up pay grades after ranking jobs using a system based on knowledge, management complexity, and the job's magnitude and impact on the organization.[96]

pay (or wage) grade
A pay grade is composed of jobs of approximately equal difficulty.

A **pay (or wage) grade** is composed of jobs of approximately equal difficulty or importance as determined by job evaluation. If you used the point method of job evaluation, the pay grade consists of jobs falling within a range of points. If the ranking method was used, the grade consists of a specific number of ranks. If you use the classification system, then your jobs are already categorized into classes (or grades).

DETERMINING THE NUMBER OF PAY GRADES It is standard to establish grades of equal point spread. (In other words, each grade might include all those jobs falling between 50 and 100 points, 100 and 150 points, 150 and 200 points, etc.) Since each grade is the same width, the main issue involves determining how many grades to have.

FIGURE 11-10 Wage Structure



There doesn't seem to be any optimal number, although 10 to 16 grades for a given job cluster (shop jobs, clerical jobs, etc.) seems to be common. You need more pay grades if there are, say, 1,000 jobs to be graded than if there are only 100.

14. Establish Rate Ranges

pay (or rate) ranges
A series of steps or levels within a pay grade, usually based upon years of service.

Most employers do not pay just one rate for all jobs in a particular pay grade. For example, GE Medical won't want to pay all its accounting clerks, from beginners to long tenure, at the same rate, even though they may all be in the same pay grade. Instead, employers develop vertical pay (or "rate") ranges for each of the horizontal pay grades (or pay classes). These **pay (or rate) ranges** often appear as vertical boxes within each grade, showing minimum, maximum, and midpoint pay rates for that grade, as in Figure 11-10. (Specialists call this graph a *wage structure*. Figure 11-10 graphically depicts the range of pay rates—in this case, per hour—paid for each pay grade.) Alternatively, you may depict the pay range for each class or grade as steps in a table, as in Table 11-5. Here you will have specific corresponding pay rates for each step within each grade in tabular form. Thus, Table 11-5 shows the pay rates and steps for most federal government grades. As of the time of this pay schedule, for instance, employees in positions classified in grade GS-10 could be paid annual salaries between $50,748 and $65,976, depending on the level or step at which they were hired into the grade, the amount of time they were in the grade, and any merit increases they've received.

DEVELOPING RATE RANGES As in Figure 11-10, the wage curve usually anchors the average pay rate for each vertical pay range. The firm might then arbitrarily decide on a maximum and minimum rate for each grade, such as 15% above and below the wage curve. As an alternative, some employers allow the pay range for each grade to become taller (they include more pay rates) for the higher pay ranges, reflecting

TABLE 11-5 U.S. Government Annual Rates by Grade and Step

Grade	Step 1	Step 2	Step 3	Step 4	Step 5	Step 6	Step 7	Step 8	Step 9	Step 10	Within Grade Amounts
1	19738	20400	21056	21709	22365	22749	23398	24052	24078	24690	VARIES
2	22194	22722	23457	24078	24349	25065	25781	26497	27213	27929	VARIES
3	24216	25023	25830	26637	27444	28251	29058	29865	30672	31479	807
4	27184	28090	28996	29902	30808	31714	32620	33526	34432	35338	906
5	30414	31428	32442	33456	34470	35484	36498	37512	38526	39540	1014
6	33903	35033	36163	37293	38423	39553	40683	41813	42943	44073	1130
7	37674	38930	40186	41442	42698	43954	45210	46466	47722	48978	1256
8	41723	43114	44505	45896	47287	48678	50069	51460	52851	54242	1391
9	46083	47619	49155	50691	52227	53763	55299	56835	58371	59907	1536
10	50748	52440	54132	55824	57516	59208	60900	62592	64284	65976	1692
11	55756	57615	59474	61333	63192	65051	66910	68769	70628	72487	1859
12	66829	69057	71285	73513	75741	77969	80197	82425	84653	86881	2228
13	79468	82117	84766	87415	90064	92713	95362	98011	100660	103309	2649
14	93907	97037	100167	103297	106427	109557	112687	115817	118947	122077	3130
15	110460	114142	117824	121506	125188	128870	132552	136234	139916	143598	3682

Source: https://www.opm.gov/policy-data-oversight/pay-leave/salaries-wages/salary-tables/21Tables/html/GS.aspx#:~:text=Pay%20%26%20Leave%20Salaries%20%26%20Wages%20%20,%20%2034432%20%2011%20more%20rows%20, accessed April 3, 2022.

the greater demands and performance variability inherent in more complex jobs. As in Figure 11-10, most employers structure their rate ranges to overlap a bit, so an employee in one grade who has more experience or seniority may earn more than would someone in an entry-level position in the next higher pay grade.[97]

There are several reasons to use pay ranges for each pay grade. First, it lets the employer take a more flexible stance in the labor market. For example, it makes it easier to attract experienced, higher-paid employees into a pay grade at the top of the range, since the starting salary for the pay grade's lowest step may be too low to attract them. Pay ranges also let companies provide for performance differences between employees within the same grade or between those with different seniorities.

compa ratio
Equals an employee's pay rate divided by the pay range midpoint for his or her pay grade.

Compensation experts sometimes use *compa ratios*. The **compa ratio** equals an employee's pay rate divided by the pay range midpoint for his or her pay grade. A compa ratio of 1 means the employee is being paid exactly at the pay range midpoint. If the compa ratio is above 1 then the person's pay rate exceeds the midpoint pay for the job. If it is below, then the pay rate is less than the midpoint. The compa ratio can help reveal how many jobs in each pay grade are paid above and below competitive market pay rates.[98]

15. Address Remaining Jobs

To this point, we have focused our job evaluation on a limited number of benchmark jobs, as is traditional. We now want to add our remaining jobs to the wage structure. We can do this in two ways. We can evaluate each of the remaining jobs using the same process we just went through. Or we can simply slot the remaining jobs into the wage structure where we feel they belong, without formally evaluating and assigning points to these jobs. Jobs similar enough to our benchmark jobs we can easily slot into the wage structure. Jobs we're not sure about should undergo the same job evaluation process; we assign points to them and precisely slot them into the wage structure.[99]

16. Correct Out-of-Line Rates

Finally, the wage rate the firm is now paying for a particular job may fall well off the wage curve or well outside the rate range for its grade, as illustrated in Figure 11-6. This means that the average pay for that job is currently too high or too low, relative

to other jobs in the firm. For underpaid jobs, the solution is clear: Raise the wages of underpaid employees to the minimum of the rate range for their pay grade.

Current pay rates falling above the rate range are a different story. These are "red circle," "flagged," or "overrates." There are several ways to cope with this problem. One is to freeze the rate paid to these employees until general salary increases bring the other jobs into line. A second option is to transfer or promote the employees involved to jobs for which you can legitimately pay them their current pay rates. The third option is to freeze the rate for 6 months, during which time you try to transfer or promote the overpaid employees. If you cannot, then cut the rate you pay these employees to the maximum in the pay range for their pay grade. Also confirm that the existence of too many red circle rates doesn't mean you need to modify your pay structure, for instance in terms of the grade ranges.[100]

HR Tools For Line Managers and Small Businesses: Developing a Workable Pay Plan

Pay plans are as important for small firms as large ones. Pay that is too high wastes money; too low triggers turnover; and internally inequitable causes endless demands for raises. The owner who wants to concentrate on major issues like sales needs a rational pay plan.

Surveying market rates comes first. Sites like LinkedIn and Salary.com will show localized average pay rates for jobs in your geographic area. The Sunday newspaper classified ads (online and offline) will contain information on wages offered for jobs similar to those you're trying to price. Local job service "one-stop" offices can provide a wealth of information, as they compile extensive information on pay ranges and averages for many jobs. Employment agencies, always anxious to form ties with employers, will provide good data. Local college and university career centers will reveal prevailing pay rates for many jobs. Professional associations (such as the careers link for civil engineers at www.asce.org) are good sources of professionals' pay rates.

Smaller firms are making use of the Internet in other ways. StockHouse Media Corp (www.stockhouse.com) uses the web for determining salaries for all the firm's personnel. For example, the HR manager surfs the web to monitor rates and trends by periodically checking job boards, company websites, LinkedIn, and industry associations.[101]

If you employ more than 20 employees or so, conduct at least a rudimentary job evaluation (probably using the *ranking method* we covered earlier). For this you will need job descriptions (from, for example, O*NET and jobdescription.com), since these will be the source of data regarding the nature and worth of each job.

You may find it easier to split your employees into three clusters—say, managerial/professional, office/clerical, and plant personnel. For each of the three groups, choose one or more compensable factors. Then rank (or assign points to) each job in that cluster based on, say, a ranking job evaluation. For each job you will then want to create a pay range. In general, you might choose as the midpoint of that range the average market salary for that job, or an average of the market rate and what you are currently paying. Then produce a total range of about 30% above and below this average, broken into five steps. (Thus, assemblers, one of the plant personnel jobs, might earn from $8.00 to $12.60 per hour, in five steps.)

Required compensation policies will include amount of holiday and vacation pay (as we explain in Chapter 13), overtime pay policy, method of pay (weekly, biweekly, monthly), garnishments, and time card or sign-in sheet procedures. Many pay policy examples are available online.[102]

LEARNING OBJECTIVE 11-4

Explain how to price managerial and professional jobs.

Pricing Managerial and Professional Jobs

Developing compensation plans for managers or professionals is similar in many respects to developing plans for any employee. The basic aim is the same: to attract, motivate, and retain good employees. And job evaluation is about as applicable to managerial and professional jobs (below the top executive levels) as to production and clerical ones.

There are some big differences though. Managerial jobs tend to stress harder-to-quantify factors like judgment and problem solving more than do production and clerical jobs. There is also more emphasis on paying managers and professionals based on their performance or on what they can do, rather than on static job demands like working conditions. And one must compete in a marketplace for executives who often have rock star pay. So, job evaluation, although still important for management jobs, usually plays a secondary role to issues like bonuses, incentives, market rates, and benefits.

What Determines Executive Pay?

Because average CEO pay has leaped relative to the average worker's, executive pay has become a contentious topic today.[103]

Whatever it is that accounts for CEO pay, it's apparently not always performance.[104] (Or, as the *Wall Street Journal* recently put it, "Strong Performers Get a Raise. So Do Most of the Rest.")[105] In one survey, the best-performing CEOs received the lowest average compensation, while those in low-performing companies were paid relatively well.[106] Conversely, one expert says CEOs with the highest 20% of compensation actually produced stock returns 60% greater than those of other firms in their industries.[107] Another study concluded that three main factors, *job complexity* (span of control, the number of functional divisions over which the executive has direct responsibility, and management level), the employer's *ability to pay* (total profit and rate of return), and the executive's *human capital* (educational level, field of study, work experience), accounted for about two-thirds of executive compensation variance.[108]

In practice, external equity plays a big role in setting a top manager's compensation plan. The board of director's compensation committee may retain a compensation consultant, and together they will choose and analyze top executives' pay in what they consider to be "peer companies"—companies that may (or may not) be in the same industry as theirs. Critics argue that this process creates upward pressures on CEO compensation, because the peer companies often are ones with higher-paid CEOs.[109] Alternatively, companies such as Berkshire Hathaway and Amazon tended to pay their founder/CEOs (Warren Buffet, former CEO Jeff Bezos) far less than do comparably sized firms; however, the CEOs have of course become very wealthy (as have many stockholders) through their stockholdings.[110]

Below the CEO, many employers do use job evaluation for pricing managerial jobs (at least, below the top jobs). The basic approach is to classify executive and management positions into grades, each with a salary range. As with nonmanagerial jobs, one alternative is to rank the executive and management positions in relation to each other, then group into classes those of similar value. However, firms also use the job classification and point methods, with compensable factors like position scope, complexity, and difficulty. As with any jobs, job analysis, salary surveys, and fine-tuning salary levels around wage curves play roles.

Shareholder activism and government oversight have tightened restrictions on what companies pay top executives. Recently, shareholders of Walt Disney Company narrowly passed a nonbinding resolution giving shareholders a say on pay for the company's CEO. The company subsequently reduced his pay by at least $13.5 million.[111]

Compensating Executives

Compensation for a company's top executives usually consists of several main elements.[112] *Base pay* includes the person's fixed salary. *Bonuses* are single payments generally to reward the manager for achieving a specific goal such as "total company profit over $18 million." *Short-term incentives* are usually cash or stock bonuses for achieving progress toward strategic goals, such as "reducing reliance on domestic sales from 80% to 50%." *Long-term incentives* aim to encourage the executive to take actions that drive up the value of the company's stock and include things like stock options. Finally, *executive benefits and perks* include things such as supplemental executive retirement pension plans. As an example, one CEO's total compensation was about $24 million in one year. Long-term stock awards and stock options of about $15 million were the

largest component. About $1.5 million was base salary. About $3.5 million was annual incentive plan, just over $4 million was increased pensions and deferred compensation, and most of the rest went to "all other compensation."[113]

Salary is traditionally the cornerstone of executive compensation. On it, employers layer benefits, incentives, and perquisites. Top executive compensation packages can be whoppers. The CEOs of Charter Communications and of CBS recently earned a total of about $98 million and $68 million, respectively.[114]

Executive compensation emphasizes performance (discussed in Chapter 12) more than do other employees' pay plans, since organizational results reflect executives' contributions more than those of lower-echelon employees. Indeed, boards are boosting the emphasis on performance-based pay (in part due to shareholder activism). The big issue here is identifying the appropriate performance measures. Typical short-term measures include revenue growth and operating profit margin. Long-term measures include rate of return above some predetermined base. With so many complicated elements, employers must also be alert to the tax and securities law implications of their executive compensation decisions.

Compensating Professional Employees

In compensating professionals, employers should first ensure that the person is actually a "professional" under the law. The Fair Labor Standards Act "provides an exemption from both minimum wage and overtime pay for employees employed as bona fide executive, administrative, professional and outside sales employees."[115]

However, calling someone a professional doesn't make them one. In addition to earning at least $684 per week, the person's main duty must "be the performance of work requiring advanced knowledge," and "the advanced knowledge must be customarily acquired by a prolonged course of specialized intellectual instruction."[116] One company hired a high school graduate as an exempt "product design specialist II," earning $62,000 per year. The job required 12 years of relevant experience, but no particular education. The court ruled the job was *non*exempt.[117]

Beyond that, compensating professionals such as engineers and attorneys presents unique challenges.[118] Analytical jobs like these emphasize compensable factors such as creativity and problem solving that are not easily measured. Furthermore, how to measure performance? For example, the success of an engineer's idea depends on how the firm develops and markets it. And such jobs can be highly sensitive to market conditions and industry demand. For example, Facebook, Google (Alphabet), and Amazon reportedly hire about 30% of American computer science graduates, which creates highly competitive pricing conditions.[119] Wages for other jobs—such as for engineers in the heating and air conditioning industry—face less pressure.[120]

Employers can and do use job evaluation for professional jobs. Compensable factors here tend to focus on problem solving, creativity, job scope, and technical knowledge and expertise. Firms use the point method and job classification.

Yet, in practice, firms rarely rely on just job evaluation for pricing professional jobs. Factors like creativity (as noted) are hard to measure, and nonpay issues often influence professionals' job decisions. Tech firms in particular also take dramatic steps to keep their best engineers from leaving. Some years ago Google raised its employees' salaries by 10% in the face of defections by even their highest-paid professionals.[121] Many of them, well paid by most standards, still felt underpaid. Tech firms like Meta (Facebook) also award far more stock options (or stock shares) than do most other industries, and many give large signing bonuses that they can claw back if someone leaves the company prematurely.[122]

Most employers therefore emphasize a market-pricing approach for these jobs. They price professional jobs in the marketplace as best they can, to establish the values for benchmark jobs. Then they slot these benchmark jobs and their other professional jobs into a salary structure. Each professional discipline (such as engineer) usually ends up having four to six grade levels, each with a broad salary range. This helps employers remain competitive when bidding for professionals who literally have global employment possibilities.[123] That way, even outside Silicon Valley, engineers'

pay stays competitive: In one (non-high-tech industry) study a few years ago, the engineers earned a base salary of $89,000, and a bonus of about $9,000 based on personal performance, product profitability, and safety metrics.[124] Engineer base salaries today range from about $70,000 to $110,000, depending on the state.[125]

Payroll Administration

Payroll administration is one of the first functions most employers computerize or outsource, and for good reason. Administering the payroll system—keeping track of each employee's FLSA worker status, wage rate, dependents, benefits, overtime, tax status, and so on; computing each paycheck; and then directing the actual printing of checks or direct deposits is a time-consuming task, one complicated by the need to comply with many federal, state, and local wage, hour, and other laws.

Many employers do perform this function in-house, usually with a payroll processing software package. Intuit's *Basic Payroll* lets the employer "enter hours worked and get instant paycheck calculations, including earnings, payroll taxes, and deductions. Then print paychecks yourself. *Basic Payroll* calculates federal and state payroll taxes for you, so you can easily e-pay federal taxes and write a check for state taxes."[126] Kronos's *Workforce Payroll* automates the payroll process. "Workforce Payroll completes common and complex payroll processes with automated calculation of wages, bonuses, and other compensation—and simplifies the management of taxes, deductions, withholding allocations, and accruals tracking."[127] Employees can see pay stubs and earning histories, change direct deposit and W-4 forms, and see their deductions changes impact their take home pay.

On the other hand, many employers do outsource payroll administration to vendors such as ADP. In deciding which vendor to use, the employer should consider its goals and the potential economic benefits, as well as factors such as the vendor's reputation. SHRM recommends evaluating the initial list of prospective vendors based on the employer's goals for the relationship. Don't just consider the relative economic benefits of outsourcing the function (rather than doing it in-house). Instead also consider the desirability of integrating the employer's internal systems with the vendor's, streamlining tax compliance and filings, and increasing employee self-service.[128]

LEARNING OBJECTIVE 11-5

Explain the difference between competency-based and traditional pay plans.

Contemporary Topics in Compensation

In this section, we'll look at five important contemporary compensation topics: competency-based pay, broadbanding, comparable worth, board oversight of executive pay, and total rewards.

Competency-Based Pay

Some managers question whether job evaluations that slot jobs into narrow cubbyholes ("Machinist I," "Machinist II," and so on) might not actually be counterproductive. For example, high-performance work systems depend on flexible multiskilled job assignments and on teamwork, and there's no place here for employees to say, "That's not my job."

competency-based pay
Where the company pays for the employee's range, depth, and types of skills and knowledge, rather than for the job title he or she holds.

Competency-based pay aims to avoid that problem.[129] With competency (generally skill or knowledge-based) pay, you pay the employee for the skills and knowledge that person is capable of using rather than for the title or responsibilities of the job currently held.[130] Experts variously call this competence-, knowledge-, or skill-based pay. With competency-based pay, an employee in a class I job who could (but may not have to at the moment) do class II work gets paid as a class II worker, not a class I. *Competencies* are demonstrable personal characteristics such as knowledge, skills, and personal behaviors such as leadership. Why pay employees based on the skill levels they achieve, rather than based on the jobs they're assigned to? Because, for example, a company that organizes a facility around teams may want to encourage employees to get and to use the skills required to rotate among jobs.

Many employers pay certain workers based on attained skill levels.

Wavebreakmedia/Shutterstock

As an example, review Chapter 4's Figure 4-10. For this job, BP lists the minimum level of each skill (Technical Expertise, Problem Solving, and so on) someone holding this job must attain. As an employee achieves and is tested on each level of each skill, they receive a bump in pay.

Broadbanding

Most firms end up with pay plans that slot jobs into classes or grades, each with its own vertical pay rate range. For example, the U.S. government's pay plan consists of 15 main grades (GS-1 to GS-15), each with its own pay range. For an employee whose job falls into one of these grades, the pay range for that grade dictates his or her minimum and maximum salary.

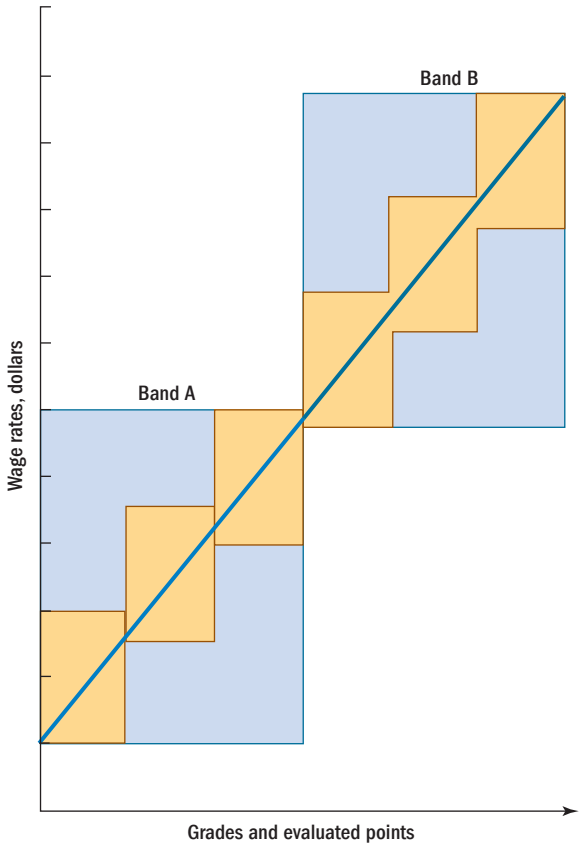
The question is, "How wide should the salary grades be, in terms of the number of job evaluation points they include?" (For example, should the U.S. government collapse its 15 salary grades into 5 or 6 broader bands?) There is a downside to having (say, 15) narrow grades. For instance, if you want someone whose job is in grade 2 to fill in for a time in a job that happens to be in grade 1, it's difficult to reassign that person without lowering his or her salary. Similarly, if you want the person to learn about a job that happens to be in grade 3, the employee might first want a corresponding raise to grade 3 pay. Traditional grade pay plans could thus breed inflexibility.

broadbanding
Consolidating salary grades and ranges into just a few wide levels or "bands," each of which contains a relatively wide range of jobs and salary levels.

That is why some firms broadband their pay plans.[131] **Broadbanding** means collapsing salary grades into just a few wide levels or bands, each of which contains a relatively wide range of jobs and pay levels. Figure 11-11 illustrates this. Here, the company's previous six pay grades are consolidated into two broad grades or "broadbands."

A company may create broadbands for all its jobs, or for specific groups such as managers or professionals. The (vertical) pay rate range of each broadband is relatively large, since it ranges from the minimum pay of the lowest grade the firm merged into the broadband up to the maximum pay *of the highest merged grade*. Thus, for example, instead of having 10 salary grades, each of which contains a salary range of $15,000, the firm might collapse the 10 grades into three broadbands, each with a set of jobs such that the difference between the lowest- and highest-paid jobs might be $40,000 or more. (Again, see Figure 11-11). For the jobs that fall in this broadband, there is therefore a much wider range of pay rates. You can move an employee from job to job within the broadband more easily, without worrying about the employee's moving

FIGURE 11-11
Broadbanded Structure and How It Relates to Traditional Pay Grades and Ranges



outside the (relatively) narrow rate range associated with a traditional narrow pay grade. This can make it easier to train someone on a higher-level job, or to have them fill in for a time on a lower-level job without worrying about pay levels.

Comparable Worth

comparable worth
The concept by which women who are usually paid less than men can claim that men in comparable rather than in strictly equal jobs are paid more.

Comparable worth refers to the requirement to pay men and women equal wages for jobs that are dissimilar but of comparable value (for instance measured in points) to the employer. This may mean comparing dissimilar jobs, such as nurses to mechanics. The question "comparable worth" seeks to address is this: Should you pay women who are performing jobs *equal* to men's or just *comparable* to men's the same as men?

County of Washington v. Gunther (1981) was a pivotal case. It involved Washington County, Oregon, prison matrons, who claimed sex discrimination. The county had evaluated roughly comparable (but different) men's jobs as having 5% more "job content" (based on a point evaluation system) than the women's jobs, but paid the men 35% more.[132] Why should there be such a pay discrepancy for roughly comparable jobs? After moving through the courts to the U.S. Supreme Court, Washington County finally agreed to pay 35,000 employees in female-dominated jobs almost $500 million in pay raises over 7 years to settle.

Comparable worth has implications for job evaluation. Virtually every comparable worth case that reached court involved the point method of job evaluation. By assigning points to dissimilar jobs, point plans facilitate comparability ratings among different jobs. Should employers still use point plans? Perhaps the wisest approach is for employers to price their jobs as they see fit (with or without point plans), but to also ensure that women have equal access to all jobs. In other words, eliminate sex-segregated jobs.

The Diversity Counts box expands on this discussion.

DIVERSITY COUNTS

The Gender Pay Gap

All this notwithstanding, women in the United States earn only about 82% as much as men.[133] The gap is worse for women of color, and exists even among the most highly trained.[134]

Reasons put forth for the gap include a "Motherhood Penalty" (women take more time off to care for the family, and are penalized career-wise for this); employer discrimination; the outdated notion that employers view women as having less leverage; the fact that professional men change jobs more often (thereby gaining more raises); and that women tend to end up in departments that pay less.[135] In any case, it's a problem employers should recognize and address.

One writer notes that although federal laws such as the Equal Pay Act have not successfully eliminated the gender gap, new approaches might. For example, state laws that regulate asking applicants for a salary history may accelerate movement toward pay equity.[136] Some employers, including Alphabet, already address the gap. Pressures from investor groups, and the national #MeToo movement are forcing others to do so.[137]

Sometimes apparently nondiscriminatory explanations for gender gaps may be found. One study compared the pay of UberX and UberPool drivers in the United States between January 2015 and March 2017.[138] On average, men made $21.28 per hour before expenses, compared with women's $20.04 per hour. Because the algorithm sets fares, and neither negotiations nor management discretion are involved, the question was, why the difference? The researchers concluded it was three things: men operated in more lucrative locations, such as those with higher crime rates. Men logged more hours each week (although this might simply be a contemporary example of the "Motherhood Penalty"). And, men drove faster and thus did more rides per hour. ■

Board Oversight of Executive Pay

The company's board of directors is responsible for setting top executives' pay. The Securities and Exchange Commission (SEC), New York Stock Exchange (NYSE), and NASDAQ stock market all require that listed companies have compensation committees comprised of independent directors.[139] Boards and their compensation committees today are scrutinizing executive pay for two reasons: governmental regulation/legal, and shareholder activism/inequity.

First, legislation gives various governmental agencies oversight over executive pay. To ensure adequate disclosure, the Securities and Exchange Commission (SEC) requires detailed compensation-related information for the CEO, chief financial officer, and next three highest paid executives. The company usually summarizes this in a Summary Compensation Table in the company's annual proxy statement filed with the SEC.[140] The Dodd–Frank Law of 2010 requires that American companies give shareholders a (nonbinding) "say on pay." The Sarbanes–Oxley Act makes executives personally liable, under certain conditions, for corporate financial oversight lapses. Similarly, tax treatment and disclosure are overseen by the Departments of the Treasury and of Labor, and the Internal Revenue Service.[141]

Second, CEO pay compared with an average worker's pay has mushroomed in the past 20 or so years—the gap is about six times larger than it was then.[142] Boards therefore face shareholder activism on executive pay. Law firms file class-action suits demanding information from companies about their senior executive pay decisions.[143] Public corporations in the United States must compute and report the ratio of CEO to median company employee pay.[144]

The net result is that lawyers specializing in executive pay suggest that boards of directors ask themselves questions such as:[145]

- Has our compensation committee identified its duties and processes?
- Is our compensation committee using the appropriate compensation advisors?
- Are there particular executive compensation issues that our committee should address?
- Do our procedures demonstrate diligence and independence (including careful deliberations and records)?
- Is our committee appropriately communicating its decisions? How will shareholders react?[146]

LEARNING OBJECTIVE 11-6

Describe the importance of total rewards for improving employee engagement.

total rewards
Rewards that encompass not only compensation and benefits but also personal and professional growth opportunities and a motivating work environment.

Employee Engagement Guide for Managers

Total Rewards

People bring to their jobs many needs—for challenging work and for respect, for instance—not all of which pay can satisfy. "**Total rewards** encompass not only compensation and benefits but also personal and professional growth opportunities and a motivating work environment."[147] It therefore includes not just traditional financial rewards (wages, incentives, benefits, and perks). It also includes nonfinancial and intangible rewards such as recognition, the nature of the job/quality of work, career development,[148] good relationships with colleagues, organizational justice, feelings of being valued and involved, opportunities for promotion,[149] and work climate.[150]

The pandemic and its effects seem to have accelerated the interest in total rewards.[151] Imbalances in labor supply and demand put salaries under upward pressure. Employee anxiety, and remote work, heightened interest in supporting employees' mental health and work–life balance. At the same time, DEI issues placed new emphasis on inclusion and equitable pay. Things like recognition, good relationships with colleagues, and feelings of being valued resonated more strongly in this environment.

Total Rewards and Employee Engagement

When it comes to employee engagement, both material and nonmaterial rewards—total rewards—are important.[152] For example, one study found that base pay and benefits alone were weakly related to engagement.[153] However, intangible rewards (such as the nature of the job/quality of work, and career development opportunities) had high or very high impacts on engagement and performance, when combined with base salary and short-term incentives or bonuses.[154]

It's therefore not surprising that many high-engagement employers emphasize total rewards. For example, the values laid out in Toyota's famous "The Toyota Way" include mutual trust and respect, stable employment, helping employees to develop their technical skills, and providing extensive benefits such as childcare.[155] Similarly, many "Best Companies to Work For" emphasize intangible rewards. For example, one top executive at NetApp takes an opportunity to call and thank several employees each day for their efforts.[156] At SAS there is stimulating work, an empowering management philosophy, flexible work, and an emphasis on being happy at work.[157]

The employer should issue total reward statements periodically. List all the rewards—financial and nonfinancial—the company offers; also note their importance to the employees' overall well-being.[158] Doing so can increase their impact.

Chapter Review

Chapter Section Summaries

11-1. In establishing strategic pay plans, managers first need to understand some **basic factors in determining pay rates**. Employee compensation includes both direct financial payments and indirect financial statements. The factors determining the design of any pay plan include legal, union, company strategy/policy, and equity. Legal considerations include, most importantly, the Fair Labor Standards Act, which governs matters such as minimum wages and overtime pay. Specific categories of employees are exempt from the act or certain provisions of the act, particularly its overtime provisions. The Equal Pay Act of 1963 and the Employee Retirement Income Security Act are other important laws.

11-2. Employers use two basic approaches to setting pay rates: *market-based approaches* and **job evaluation methods**. Many firms, particularly smaller ones, simply use a *market-based* approach. Job evaluation methods involve assigning values to each of the company's jobs. This helps to produce a pay plan in which each job's pay is equitable based on its value to the employer. Popular job evaluation methods include ranking, job classification, and the point method.

11-3. We said the process of **creating a market-competitive pay plan** while ensuring external, internal, and procedural equity consists of 16 steps as follows: (1) Choose benchmark jobs; (2) Select compensable factors; (3) Assign weights to compensable factors; (4) Convert percentages to points for each factor; (5) Define each factor's degrees; (6) Determine for each factor its factor degrees' points; (7) Review job descriptions and job specifications; (8) Evaluate the jobs; (9) Draw the current (internal) wage curve; (10) Conduct a market analysis: Salary surveys; (11) Draw the market (external) wage curve; (12) Compare and adjust current and market wage rates for jobs; (13) Develop pay grades; (14) Establish rate ranges; (15) Address remaining jobs; and (16) Correct out-of-line rates.

11-4. **Pricing managerial and professional jobs** involves some special issues. Managerial pay typically consists of base pay, short-term incentives, long-term incentives, and executive benefits and, particularly at the top levels, doesn't lend itself to job evaluation but rather to understanding the job's complexity, the employer's ability to pay, and the need to be competitive in attracting top talent.

11-5. We addressed five important **special topics in compensation**. More employers are moving from paying jobs based on their intrinsic duties toward paying jobs based on the competencies the job requires. Broadbanding means consolidating several rates and ranges into a few wide levels or "bands," each of which contains a relatively wide range of jobs and salary levels. Comparable worth refers to the requirement to pay men and women equal pay for jobs that are of comparable rather than strictly equal value to the employer. With many stockholders concerned with excessive executive remuneration, board oversight of executive pay has become an important issue, and boards of directors should use qualified advisors and exercise diligence and independence in formulating executive pay plans.

11-6. Research shows that if **employee engagement** is the aim, it makes sense to emphasize total rewards, not just financial rewards. For example, one study found that base pay and benefits alone had a weak relationship with employee engagement. However, total rewards including intangible rewards such as the nature of the job/quality of work, and career development opportunities had a high or very high impact on engagement and performance, when combined with base salary and short-term incentives or bonuses.

Discussion Questions

11-1. What is the difference between exempt and nonexempt jobs?

11-2. Should the job evaluation depend on an appraisal of the jobholder's performance? Why? Why not?

11-3. What is the relationship between compensable factors and job specifications?

11-4. Define and give an example of how to conduct a job evaluation.

11-5. The average pay for most university presidents is around $400,000 per year, but many earn much more. For example, the president of NYU received over $1 million in one year. Discuss why you would (or would not) pay university presidents as much as or more than many corporate CEOs.

11-6. Do small companies need to develop a pay plan? Why or why not?

11-7. After Walmart raised its minimum starting pay to $12 an hour, some longer-term employees (like one earning $14 per hour) complained that the strictly entry-level increase was unfair to them. And when the head of a company called Gravity Payments decided to pay all his employees at least $70,000 a year, some longer-tenure employees complained that it was unfair to raise new peoples' salaries and not theirs.[159] How should Walmart and Gravity address these complaints?

Individual and Group Activities

11-8. Working individually or in groups, conduct salary surveys for the following positions: entry-level accountant and entry-level chemical engineer. What sources did you use, and what conclusions did you reach? If you were the HR manager for a local engineering firm, what would you recommend that you pay for each job?

11-9. Working individually or in groups, develop compensation policies for the teller position at a local bank. Assume that there are four tellers: two were hired in May and the other two were hired in December. The compensation policies should address the following: appraisals, raises, holidays, vacation pay, overtime pay, method of pay, garnishments, and time cards.

11-10. Working individually or in groups, access relevant websites to determine what equitable pay ranges are for these jobs: chemical engineer, marketing manager, and HR manager, all with a bachelor's degree and 5 years' experience. Do so for the following cities: New York, New York; San Francisco, California; Houston, Texas; Denver, Colorado; Miami, Florida; Atlanta, Georgia; Chicago, Illinois; Birmingham, Alabama; Detroit, Michigan; and Washington, D.C. For each position in each city, what are the pay ranges and the average pay? Does geographical location impact the salaries of the different positions? If so, how?

11-11. The HRCI *Exam Content Outline* website https://www.hrci.org/docs/default-source/web-files/phr-exam-content-outline.pdf?sfvrsn=13c44f61_28 lists the knowledge someone studying for the HRCI PHR certification exam needs to have in each area of human resource management (such as in Business Management, and in Talent Planning and Acquisition.)[160] In groups of several students, do four things: (1) review the *Exam Content Outline* on that website; (2) identify the material in this chapter that relates to the Exam Content Outline's required "Knowledge Of" lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.

11-12. Working individually or in groups, use the point system described in steps 1 to 16 in this chapter. Do so for a job description that you find online, or for the Telesales Respresentative job description in chapter 4 Figure 4-6 of this book. To simplify things, assume there is only one compensable factor you have to use, and that it is job complexity, so that you can use Figure 11-5.

11-13. How do you think politicians in the United States should address the problem of income inequality?

Experiential Exercise

Ranking the College's Administrators

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Purpose: The purpose of this exercise is to give you experience in performing a job evaluation using the ranking method.

Required Understanding: You should be thoroughly familiar with the ranking method of job evaluation and obtain job descriptions for your college's dean, director of admissions, and your professor.

How to Set Up the Exercise/Instructions: Divide the class into groups of four or five students. The groups will perform a job evaluation of the positions of dean, director of admissions, and professor using the ranking method.

Perform a job evaluation by ranking the jobs. You may use one or more compensable factors.

11-14. If time permits, a spokesperson from each group can put his or her group's rankings on the board. Did the groups end up with about the same results? How did they differ? Why do you think they differed?

Application Case

Salary Inequities at AstraZeneca

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The U.S. Department of Labor's Office of Federal Contract Compliance Programs (OFCCP) entered into an agreement with AstraZeneca, a large international pharmaceuticals firm, for the company to pay some of its female sales associates a total of $250,000.[161] AstraZeneca had a contract valued at over $2 billion with the U.S. Department of Veterans Affairs to provide drugs to hospitals around the country. That made it subject to Executive Order 11246, which aims to ensure that employees of U.S. contractors and subcontractors with federal contracts pay their employees fairly without regard to sex, race, color, religion, and national origin.

After conducting a compliance review, the OFCCP concluded that AstraZeneca violated Executive Order 11246 by failing to ensure certain women employees were paid fairly. According to the OFCCP lawsuit, an AstraZeneca Business Center had routinely paid some of its female "primary care" and "specialty care" level III pharmaceutical sales specialists an average of $1,700 less than men with the same positions. Because of the company's pay secrecy policies, many of the women didn't know they were being paid less. In addition to the financial settlement, AstraZeneca and OFCCP will review records of the firm's female employees in 14 states. If they find additional statistical evidence of wage discrimination, the company must remedy it.

Questions

AstraZeneca has brought you in as a compensation consultant. Here are the questions they would like you to answer for them:

11-15. Although the case with OFCCP is closed, we wonder what you would suggest we do to avoid such a problem in the future?

11-16. Our own company now uses a point method to evaluate jobs for pay purposes, and each resulting job class also has a rate range associated with it. Sales associates are now paid a salary that is not based on incentive pay. List three specific things we can do to ensure that a similar problem (inequitable pay based on gender) does not arise again, assuming they continue using the point plan.

11-17. What sort of compensation plan would you recommend for us, and why?

CHAPTER 11

Continuing Case

Carter Cleaning Company

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The New Pay Plan

Carter Cleaning Centers does not have a formal wage structure nor does it have rate ranges or use compensable factors. Wage rates are based mostly on those prevailing in the surrounding community. And, they are tempered with an attempt on the part of Jack Carter to maintain some semblance of equity between what workers with different responsibilities in the stores are paid.

Carter does not make any formal surveys when determining what his company should pay. He peruses the want ads almost every day and conducts informal surveys among his friends in the local chapter of the laundry and cleaners trade association. While Jack has taken a "seat-of-the-pants" approach to paying employees, his salary schedule has been guided by several basic pay policies. Although many of his colleagues adhere to a policy of paying minimum rates, Jack has always followed a policy of paying his employees about 10% above what he feels are the prevailing rates, a policy that he believes reduces turnover while fostering employee loyalty. Of much more concern to Jennifer is her father's informal policy of paying men about 10% more than women for the same job.

Questions

11-18. Is the company at the point where it should be setting up a formal salary structure based on a complete job evaluation? Why?

11-19. Is Jack Carter's policy of paying 10% more than the prevailing rates a sound one, and how could that be determined?

11-20. Jennifer knows that Carter's male–female differential is indefensible. What should she do to rectify it?

11-21. Specifically, what would you suggest Jennifer do now with respect to her company's pay plan?

Translating Strategy into HR Policies and Practices Case*,§

** The overall strategy map on the inside back cover of this text outlines the relationships involved.*

Improving Performance at the Hotel Paris

The New Compensation Plan

The Hotel Paris's competitive strategy is "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy by eliciting the required employee behaviors and competencies.

Like several other HR systems at the Hotel Paris, the compensation program was unplanned and unsophisticated. The company has a narrow target range for what it will pay employees in each job category (front-desk clerk, security guard, and so forth). Each hotel manager decides where to start a new employee within that narrow pay range. The company has given little thought to tying general pay levels or individual employees' pay to the company's strategic goals. For example, the firm's policy is simply to pay its employees a "competitive salary," by which it means about average for what other hotels in the city are paying for similar jobs. Lisa knows that pay policies like these may actually run counter to what the company wants to achieve strategically, in terms of creating an extraordinarily service-oriented workforce. How can you hire and retain a top workforce, and channel its behaviors toward high-quality guest services, if you don't somehow link performance and pay? She and her team therefore turn to the task of assessing and redesigning the company's compensation plan.

Even the most casual review by Lisa Cruz and the CFO made it clear that the company's compensation plan wasn't designed to support the firm's strategic goals. For one thing, they knew that they should pay somewhat more on average than did their competitors if they expected employees to exceed expectations when it came to serving guests. Yet their review of a variety of metrics (including the Hotel Paris's salary/competitor salary ratios, the total compensation expense per employee, and the target percentile for total compensation) suggested that in virtually all job categories the Hotel Paris paid no more than average and, occasionally, paid somewhat less.

The current compensation policies had also bred what one hotel manager called an "I don't care" attitude on the part of most employees. What she meant was that most Hotel Paris employees quickly learned that regardless of what their performance was, they always ended up getting paid about the same as employees who performed better and worse than they did. So, the firm's compensation plan actually created a disconnect between pay and performance: It was not channeling employees' behaviors toward those required to achieve the company's goals. In some ways, it was doing the opposite.

Lisa and the CFO knew they had to institute a new, strategic compensation plan. They wanted a plan that improved employee morale, contributed to employee engagement, reduced employee turnover, and rewarded (and thus encouraged) the sorts of service-oriented behaviors that boosted guest satisfaction. After meeting with the company's CEO and the board, the CFO gave Lisa the go-ahead to redesign the company's compensation plan, with the overall aim of creating a new plan that would support the company's strategic aims.

Lisa and her team (which included a consulting compensation expert) set numerous new measurable compensation policies for the Hotel Paris, and these new policies formed the heart of the new compensation plan. A new job evaluation study provided a more rational and fair basis upon which the company could assign pay rates. A formal compensation survey by the consultant established, for the first time at the Hotel Paris, a clear picture of what competitive hotels and similar businesses were paying in each geographic area, and enabled the Hotel Paris team to more accurately set targets for what each position at the hotel should be paying. Rather than just paying at the industry average, or slightly below, the new policy called for the Hotel Paris to move all its salaries into the 75th percentile over the next 3 years.

As they instituted the new compensation policies, Lisa and the CFO were pleased to learn from feedback from the hotel managers that they were already noting several positive changes. The number of applicants for each position had increased by over 50% on average, turnover dropped by 80%, and surveys of morale and commitment were producing higher results. Lisa and her team now began to consider how to inject more of a "pay for performance" element into the company's compensation plan, perhaps by instituting new bonuses and incentives. We will see what she did in Chapter 12.

Questions

11-22. Lisa knew little about setting up a new compensation plan. Based on what you learned here in Dessler, *Human Resource Management*, what would you tell her if she asked, "How do I set up a new compensation plan for the Hotel Paris?"

11-23. Would you suggest that Hotel Paris implement a competency-based pay plan for its nonmanagerial staff? Why or why not? Outline what they need to do for one.

11-24. Devise a ranking job evaluation system for the Hotel Paris's nonmanagerial employees (housekeepers, valets, front-desk clerks, phone operators, waitstaff, groundskeepers, and security guards), and use it to show the worth of these jobs relative to one another.

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Writing Assignments

11-25. You want to hire a new salesperson for the small dress shop you own in Columbus, Ohio, but first need to decide what sort of pay package to offer whomever you eventually hire. How would you conduct a salary survey to determine what the pay should be?

11-26. Compare and contrast the following methods of job evaluation: ranking, classification, factor comparison, and point method.

Key Terms

employee compensation, 340
direct financial payments, 340
indirect financial payments, 340
Davis-Bacon Act (1931), 341
Walsh-Healey Public Contract Act (1936), 341
Title VII of the 1964 Civil Rights Act, 341
Fair Labor Standards Act (1938), 341
Equal Pay Act, 343
Employee Retirement Income Security Act (ERISA), 344
job evaluation, 348
market-competitive pay plan, 349
compensable factor, 349
benchmark job, 350
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pay (or wage) grade, 359
pay (or rate) ranges, 360
compa ratio, 361
competency-based pay, 365
broadbanding, 366
comparable worth, 367
total rewards, 369

Endnotes

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12 Pay for Performance and Financial Incentives

WHERE ARE WE NOW . . .

Chapter 11 focused on developing pay plans and on salaries and wages. Incentives are important in any pay plan. The main purpose of this chapter is to explain how managers use incentives to motivate employees. The main topics we'll discuss are **Money's Role in Motivation; Individual Employee Incentive and Recognition Programs; Incentives for Salespeople; Incentives for Managers and Executives; Team and Organizationwide Incentive Plans;** and **Employee Engagement Guide for Managers**. In Chapter 13, we'll turn to the financial and nonfinancial benefits that comprise the third component of employee compensation packages.

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

12-1 **Explain** how you would apply four motivation theories in formulating an incentive plan.

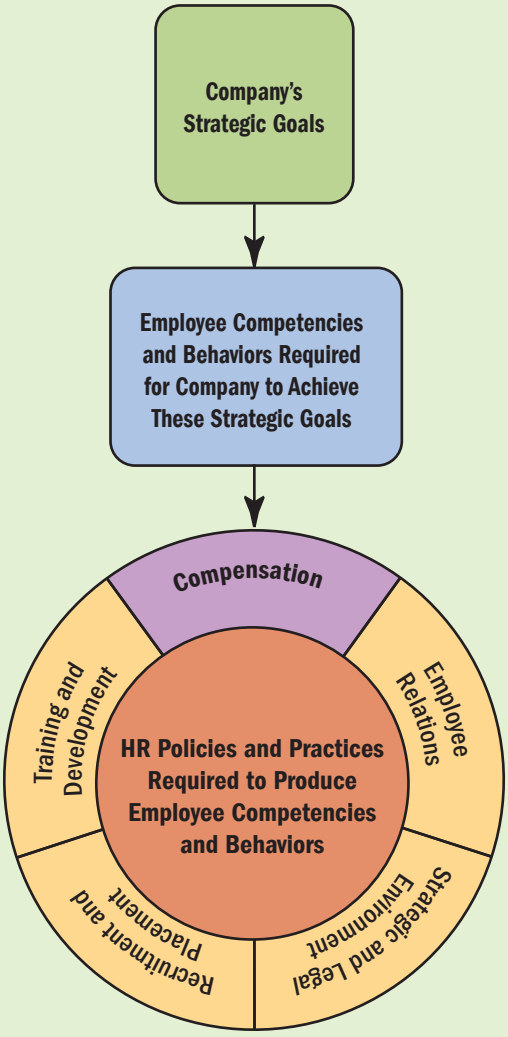
12-2 **Discuss** the main incentives for individual employees.

12-3 **Discuss** the pros and cons of commissions versus straight pay for salespeople.

12-4 **Describe** the main incentives for managers and executives.

12-5 **Name and describe** the most popular organizationwide incentive plans.

12-6 **Explain** how to use incentives to improve employee engagement.



The owners of a 21-store Midwest fast-food franchise knew that their stores' profits depended on their employees' performance. They hoped a new incentive plan would boost their employees' and stores' performance. We'll see what happened.

LEARNING OBJECTIVE 12-1

Explain how you would apply four motivation theories in formulating an incentive plan.

financial incentives
Financial rewards paid to workers whose production exceeds some predetemined standard.

productivity
The ratio of outputs (goods and services) divided by the inputs (resources such as labor and capital) required to produce those outputs.

fair day's work
Output standards devised based on careful, scientific analysis.

scientific management movement
Management approach based on improving work methods through observation and analysis.

pay-for-performance
Any plan that ties pay to some measure of performance, such as productivity or profitability.

variable pay
Any plan that ties pay to productivity or profitability, usually as one-time lump payments.

Money's Role in Motivation

Frederick Taylor popularized using **financial incentives**—financial rewards paid to workers whose production exceeds some predetermined standard—in the late 1800s. As a supervisor at the Midvale Steel Company, Taylor was concerned with what he called "systematic soldiering"—the tendency of employees to produce at the minimum acceptable level. Some workers had the energy to run home and work on their houses after a 12-hour day. Taylor knew that if he could harness this energy at work, Midvale could achieve huge productivity gains. **Productivity** "is the ratio of outputs (goods and services) divided by the inputs (such as labor and capital) required to produce those outputs."[1]

In pursuing his aim, Taylor turned to financial incentives. At the time, primitive incentive plans were in use, but were generally ineffective (because employers arbitrarily changed incentive rates).

Taylor made three contributions. He saw the need for formulating a "**fair day's work**," namely precise output standards for each job. He spearheaded the **scientific management movement**, which emphasized improving work through observation and analysis. And he popularized using incentive pay to reward employees who produced over standard.

Incentive Pay Terminology

Managers often use two terms synonymously with incentive plans.[2] All incentive plans are **pay-for-performance** plans. These include, for example, merit pay, individual incentives, profit sharing, stock options, and bonuses.[3] They all tie employees' pay to the employees' performance. Some limit the term **variable pay** to group or team incentive plans,[4] but most use *variable pay* to include any performance-based incentive plan.

Effectively Linking Strategy, Performance, and Incentive Pay

Linking pay and performance is popular.[5] In one recent survey, about 85% of employers used bonuses (including sign-on and retention bonuses); 68% recognition/spot awards; 59% divisional or organizational performance sharing (paid based on a range of financial measures); 45% individual incentives; and 18% profit sharing plans (focused on sharing profits).[6]

The problem is that linking pay and performance effectively is easier said than done. A failed incentive plan at Levi Strauss is widely assumed to have been the last nail in the coffin of Levi's U.S.-based production.

Research on incentive plans effectiveness is sketchy. An older study found that just 28% of 2,600 U.S. workers said their companies' incentive plans motivated them.[7] More recent studies suggest programs range from ineffective to effective.[8]

One problem is that many incentive plans incentivize dubious behavior. Thus one insurance company came under fire when it turned out that its insurance agents not only had to hit sales targets to earn commissions, but also to get subsidized health insurance.[9] A few years ago Wells Fargo Bank's incentive plan incentivized bank employees to hit high sales goals.[10] Bank employees opened accounts for thousands of customers without their consent.[11]

EFFECTIVE INCENTIVE PLAN PRACTICES Incentive plans have also suffered from a lack of scientific research, although this is changing. In one recent study, the researchers identified forty-four best incentive practices that had various types of support. In terms of guidelines for developing effective incentive plans, best practices that had *substantial direct evidence* of support included the following:[12]

- The pay mix should consist of usually *a small salary plus a bonus potential*.
- The incentive compensation process should be *integrated with the performance evaluation process* so it leads to improved job performance.
- Incentive compensation should [especially] be used for increasing job performance in jobs involving *sales*.
- Higher incentive compensation might be used *to reduce the turnover risk of some employees* (e.g., employees with potential opportunities to move to another company).

- The criteria considered in determining incentive compensation should be *highly job related*.
- The incentive compensation should be based in large part *on the job performance of the employee*.
- Measures of job behavior should [also] capture those aspects of performance *not fully captured by the productivity measures* (*e.g.,* effort, service, teamwork, citizenship and other factors unique to the company).
- Normative information [illustrative examples] should be provided *to enhance interpretation of job performance measures*.
- Incentive compensation recommendations should *consider the difficulty of the employee's job or other biasing factors* (such as business conditions, complex tasks, unexpected events, etc.).
- Incentive compensation recommendations should consider the *long-term trends in the employee's job performance* in addition to just the previous period.
- The incentive compensation bonus should be *based on internal equity*, meaning it ensures that the bonus differences between employees are justified based on the job and the performance of the employees.
- The incentive compensation should be *based on external equity with the market*, meaning bonuses are the same as for similar jobs in other companies.

Motivation and Incentives

A familiar incentive plan problem is that incentives that motivate some people won't motivate others. Several motivation theories have particular relevance to designing incentive plans.[13]

MOTIVATORS AND TWO-FACTOR THEORY Professor Frederick Herzberg said the best way to motivate someone is to organize the job so that doing it provides the challenge and recognition we all need to help satisfy "higher-level" needs for things like accomplishment and recognition. These needs are relatively insatiable, says Herzberg, so challenging work provides a sort of built-in motivation generator. Doing things to satisfy a worker's "lower-level" needs for things like better pay and working conditions just keeps the person from becoming dissatisfied.

Herzberg says the factors ("hygienes") that satisfy lower-level needs are different from those ("motivators") that satisfy or partially satisfy higher-level needs. If *hygiene* factors (factors outside the job itself, such as working conditions, salary, and incentive pay) are inadequate, employees become dissatisfied. However, adding more of these hygienes (like incentives) to the job (supplying what Herzberg calls "extrinsic motivation") is an inferior way to try to motivate someone, because lower-level needs are quickly satisfied. Inevitably the person says, in effect, "I want another raise."

Instead of relying on hygiene factors, says Herzberg, managers interested in creating a self-motivated workforce should emphasize "job content" or *motivator* factors (thus, "two-factor theory"). Managers do this by enriching workers' jobs so that the jobs are more challenging, and by providing feedback and recognition—by making doing the job intrinsically motivating, in other words. In organizational psychology, **intrinsic motivation** is motivation that derives from the pleasure someone gets from doing the job or task. It comes from "within" the person, rather than from externally, such as from a financial incentive plan. Intrinsic motivation means that just doing the task provides the motivation. Herzberg makes the point that relying exclusively on financial incentives is risky. The employer should also provide the recognition and challenging work that most people crave.

intrinsic motivation
Motivation that derives from the pleasure someone gets from doing the job or task.

DEMOTIVATORS Psychologist Edward Deci's work highlights another potential downside to relying too heavily on extrinsic rewards: They may backfire. Deci found that extrinsic rewards could at times actually detract from the person's intrinsic motivation.[14] The point may be stated thusly: Be cautious in devising incentive pay for highly motivated employees, lest you inadvertently demean and detract from the desire they have to do the job out of a sense of responsibility.

expectancy
A person's expectation that his or her effort will lead to performance.

instrumentality
The perceived relationship between successful performance and obtaining the reward.

valence
The perceived value a person attaches to the reward.

EXPECTANCY THEORY In general, people won't pursue rewards they find unattractive, or where the odds of success are very low. Psychologist Victor Vroom's expectancy motivation theory echoes these commonsense observations. He says a person's motivation to exert some level of effort depends on three things: the person's **expectancy** (in terms of probability) that his or her effort will lead to performance;[15] **instrumentality**, or the perceived connection (if any) between successful performance and actually obtaining the rewards; and **valence**, which represents the perceived value the person attaches to the reward.[16] In Vroom's theory:

$$\text{Motivation} = (\text{E} \times \text{I} \times \text{V}),$$

where E represents expectancy, I instrumentality, and V valence. If E or I or V is zero or inconsequential, there will be no motivation.

Vroom's theory has three implications for how managers design incentive plans.

- First, if employees don't *expect* that effort will produce performance, no motivation will occur. So, managers must ensure that their employees have the skills to do the job, and believe they can do the job. Thus, training, job descriptions, and confidence building and support are important in using incentives.
- Second, Vroom's theory suggests that employees must see the *instrumentality* of their efforts—they must believe that successful performance will in fact lead to getting the reward. Managers can accomplish this, for instance, by creating easy-to-understand incentive plans.
- Third, the reward itself must be of *value* to the employee. The manager should take into account individual employee preferences.

BEHAVIOR MODIFICATION/REINFORCEMENT Using incentives also assumes the manager understands how consequences affect behavior.[17] Psychologist B. F. Skinner's findings are useful here. Managers apply Skinner's principles by using *behavior modification*. **Behavior modification** means changing behavior through rewards or punishments that are contingent on performance. For managers, behavior modification boils down to two main principles. First, that behavior that appears to lead to a positive consequence (reward) tends to be repeated, whereas behavior that appears to lead to a negative consequence (punishment) tends not to be repeated; and second, that managers can therefore get someone to change his or her behavior by providing the properly scheduled rewards (or punishment).

behavior modification
Using contingent rewards or punishment to change behavior.

TWO OTHER MOTIVATION THEORIES We previously discussed two other motivation theories. In Chapter 9 we saw that *goal-setting theory* assumes that people are motivated to achieve goals that are specific, measurable, challenging but doable, and (generally) participatively set. Goals should be "SMART," in other words specific, measurable, attainable, relevant, and timely. In Chapter 11 we saw that according to *equity theory*, people are motivated to maintain a balance between what they see as their contributions and rewards.

To arrange our discussion, we will organize the following sections around individual employee incentive and recognition programs, sales compensation programs, management and executive incentive compensation programs, and team- and organizationwide incentive programs. First, however, we look at some legal aspects of incentive plan design.

Know Your Employment Law: Employee Incentives and the Law

Various laws affect incentive pay. Under the Fair Labor Standards Act, if the incentive the worker receives is in the form of a prize or cash award, the employer generally must *include the value of that award* when calculating the worker's overtime pay for that pay period.[18] So, unless you structure the incentive bonuses properly, the bonus itself becomes part of the week's wages. For example, suppose someone who earns $16 per hour for a 40-hour week also earns, in one week, a performance bonus of $80 for the week, or $720 total pay for the week. Further assume she *also* works 2 hours overtime that week. The overtime rate for each of the 2 hours she works overtime is not simply

1.5 times her regular $16-per-hour pay. Instead, it is 1.5 times $18 per hour. Why? Because with her performance bonus she earned $720 for the 40-hour week, and $720 divided by 40 hours is $18 per hour. Therefore, she will actually earn in total that week $720 plus the overtime pay of (1.5) $18 per each of two hours for the two extra hours, or $720 + (2)$27 = $774 total for the week.

Certain bonuses are excludable from overtime pay calculations. For example, year-end holiday and gift bonuses that are not based on hours worked, or are so substantial that employees don't consider them a part of their wages, don't have to be included in overtime pay calculations. Similarly, purely discretionary bonuses in which the employer retains discretion over how much if anything to pay are excludable.

However, other types of incentive pay *must* be included. Under the Fair Labor Standards Act, bonuses one must include in overtime pay computations include: those promised to newly hired employees; those provided for in union contracts or other agreements; and those announced to induce employees to work more productively or efficiently or to induce them to remain with the company. Such bonuses would include many of those we turn to next, such as individual and group production bonuses.

LEARNING OBJECTIVE 12-2

Discuss the main incentives for individual employees.

Individual Employee Incentive and Recognition Programs

Several incentive plans are particularly suited for use with individual employees.

Piecework

piecework
A system of pay based on the number of items processed by each individual worker in a unit of time, such as items per hour or items per day.

Piecework is the oldest incentive plan and still the most commonly used. Earnings are tied directly to what the worker produces. The person is paid a piece rate for each unit they produce. Thus, if Tom Smith gets $0.40 apiece for stamping out doorjambs, then he would get, say, $80 for stamping out 200.

Developing a workable piece rate plan requires a job evaluation and (ideally) industrial engineering. Job evaluation enables you to assign an hourly wage rate to the job in question. But the crucial issue is the production standard, and this is often developed by industrial engineers. They state production standards in terms of a standard number of minutes per unit or a standard number of units per hour. In Tom Smith's case, the job evaluation indicated that his doorjamb stamping job was worth $8.00 an hour. The industrial engineer determined that 20 jambs per hour was the standard production rate. Therefore, the engineered piece rate (for each doorjamb) was $8.00 divided by 20, which equals $0.40 per doorjamb.

straight piecework
An incentive plan in which a person is paid a sum for each unit they produce or sell, with a strict proportionality between results and rewards.

With a **straight piecework** plan, Tom Smith would be paid a sum for each unit (doorjamb) he produces, with a strict proportionality between results and rewards. However, today most employers must also guarantee their workers a minimum wage. With a guaranteed piecework plan, Tom Smith would be paid $7.25 per hour (the 2022 minimum wage) whether or not he stamped out 18 doorjambs per hour (at $0.40 each). But he would also get $0.40 for each unit over 18.

Piecework generally implies straight piecework, a strict proportionality between results and rewards regardless of level of output. Thus, in Smith's case, he continues to get $0.40 apiece for stamping out doorjambs, even if he stamps out more than the planned, say, 500 per day. However, some piecework plans share productivity gains between worker and employer. For example, the employee might only get $0.35 per piece over 400 units per day, instead of $0.40. Other plans *boost* the employee's share once a threshold is met—such as paying Tom $0.45 each once he reached 400 units per day.

standard hour plan
A plan by which a worker is paid a basic hourly rate but is paid an extra percentage of his or her rate for production exceeding the standard per hour or per day. Similar to piecework payment but based on a percent premium.

The **standard hour plan** is like the piecework plan, with one difference. Instead of getting a rate per piece, the worker gets a pay premium equal to the percent by which his or her performance exceeds the standard. So if Tom's standard is 160 doorjambs per day ($64 per eight-hour day), and he actually makes 200 jambs, he'd get an extra 25% (40/160), or $80 ($16 more). The standard hour approach may reduce workers' tendency to link their production standard (18 jambs per hour) to pay. This makes it easier to change the standard.

ADVANTAGES AND DISADVANTAGES Piecework incentive plans have advantages. They are simple to calculate and easily understood by employees. Piecework plans appear equitable in principle, and their incentive value can be powerful since they tie pay directly to performance.

Piecework also has disadvantages. One is an unsavory reputation, based on employers' habit of arbitrarily raising production standards when workers earned "excessive" wages. A more subtle drawback is that because piece rates are quoted on a per piece basis, in worker's minds the production standard (in pieces per hour) becomes tied inseparably to what they earn. Piecework plans can thus engender rigidity. When the employer tries to raise production standards, resistance ensues. Employees may also focus less on quality, and may resist switching jobs (since doing so could reduce their productivity). Even equipment maintenance may suffer as employees push to hit quotas.

Merit Pay as an Incentive

merit pay (merit raise)
Any salary increase awarded to an employee based on his or her individual performance.

Merit pay or a **merit raise** is a salary increase the firm awards to an individual employee based on individual performance. It is different from a bonus in that it usually becomes part of the employee's base salary, whereas bonuses are generally one-time payments. Although the term *merit pay* can apply to the incentive raises given to any employee, the term is more often used for professional, office, and clerical employees.

Merit pay has pros and cons. Advocates say granting pay raises across the board (*without* regard to merit) reduces performance by rewarding employees regardless of how they perform. Detractors argue, most notably, that since most appraisals are unfair, so too are the merit decisions based on them.

The evidence is mixed. For example, one study in a nuclear waste facility found a "very modest relationship between merit pay increase and performance rating."[19] Studies of merit pay for teachers found that merit pay was more linked to research productivity than to teaching effectiveness.[20] A more recent survey found that only 20% of employers in North America said merit pay drives higher levels of performance.[21] (This survey also concluded that awarding raises for demonstrating job-critical knowledge and skills was the better option.)[22]

If a merit pay plan isn't working, one sensible reaction is to improve it. This starts with effective appraisals, to ensure that managers tie the merit awards to actual performance. Similarly, merit plan effectiveness requires differentiating among employees. In one survey, the highest-paid office clerical employees got short-term incentive payouts of about 13%, the lowest-rated got 3%, and mid-rated employees got 8%.[23]

HR in Action at the Hotel Paris Based on their analysis, Lisa Cruz and the CFO concluded that, by any measure, their company's incentive plan was inadequate. The percentage of the workforce whose merit increase was tied to performance was effectively zero, because managers awarded merit pay across the board. The case at the end of this chapter explains what they did.

MERIT PAY OPTIONS Two merit pay adaptations are popular. One awards merit raises in a lump sum once a year (making them, in effect, short-term bonuses for lower-level workers). Whereas traditional merit increases become part of the employee's salary, these *lump-sum merit raises* do not. This has two benefits. First, the merit raise is not baked into the employee's salary, so you need not pay it year after year. Lump-sum increases are also more dramatic. For example, a 5% lump-sum merit payment to a $40,000 employee is $2,000 cash, as opposed to a weekly payout of about $38.

The other adaptation ties merit awards to both individual and organizational performance. Table 12-1 shows an example. In this example, you measure company performance by profits. Here, company performance and the employee's performance (using his or her performance appraisal) receive equal weight in computing merit pay. In Table 12-1, an outstanding performer would receive 70% of his or her maximum lump-sum award even when the company's performance is marginal. However, employees with marginal or unacceptable performance get no lump-sum awards even when the firm's performance was outstanding. Alternatively, you might decide to award, say, 60% of someone's bonus based on the supervisor's appraisal, 30% based on department performance, and 10% based on company performance.

TABLE 12-1 Merit Award Determination Matrix (an Example)

The Employee's Performance Rating (Weight = 0.50)	*The Company's Performance (Weight = 0.50)*				
	Outstanding	Excellent	Good	Marginal	Unacceptable
Outstanding	1.00	0.90	0.80	0.70	0.00
Excellent	0.90	0.80	0.70	0.60	0.00
Good	0.80	0.70	0.60	0.50	0.00
Marginal	—	—	—	—	—
Unacceptable	—	—	—	—	—

Note: To determine the dollar value of each employee's award: (1) multiply the employee's annual, straight-time wage or salary as of June 30 times his or her maximum incentive award (as determined by management or the board—such as, "10% of each employee's pay") and (2) multiply the resultant product by the appropriate percentage figure from this table. For example, if an employee had an annual salary of $40,000 on June 30 and a maximum incentive award of 7% and if her performance and the organization's performance were both "excellent," the employee's award would be $2,240: ($40,000 × 0.07 × 0.80 = $2,240).

Incentives for Professional Employees

Professional employees are those whose work involves the application of learned knowledge to the solution of the employer's problems, such as lawyers and engineers.

Making incentive pay decisions for professional employees is challenging. For one thing, firms usually pay professionals well anyway. For another, they're already driven by the desire to produce high-caliber work.

However, it's unrealistic to assume that people like Google engineers work only for professional gratification. Few firms therefore work harder to maintain competitive incentives for professionals. For example, Google reportedly pays higher incentives to engineers working on important projects. Those who choose the intrinsic motivation of working on more theoretical long-term projects are rewarded if their research pays off.[24] Average Google annual cash bonuses include $22,000 for software product managers, and $21,000 for senior software engineers.[25] As at most Silicon Valley firms, Google's professionals also bask in the light of potentially millionaire-making stock option grants.

Dual-career ladders are another way to manage professionals' pay. At many employers, earning more requires moving from, say, engineering into management. However, not all professionals want management. Therefore, many employers institute one career path for managers, and another for technical experts. This enables the latter to earn higher pay without switching to management.[26]

Nonfinancial and Recognition-Based Awards

Employers often supplement financial incentives with various nonfinancial and recognition awards. The term *recognition program* most usually refers to formal programs, such as employee-of-the-month programs. *Social recognition program* generally refers to informal manager–employee exchanges such as praise, approval, or expressions of appreciation for a job well done. *Performance feedback* means providing quantitative or qualitative information on task performance so as to change or maintain performance; showing workers a graph of how their performance is trending is an example.[27] The term "recognition awards" usually includes financial awards such as the "spot awards" someone receives immediately for doing something well.

Most employers offer both financial and nonfinancial awards. At one company, customer service reps who exceeded standards received a plaque, a $500 check, their photo and story on the firm's intranet, and a dinner for themselves and their teams.[28] Other popular nonfinancial rewards include gift certificates, special events, birthday celebrations, iPads, gift cards, free meals, and merchandise incentives. The HR Tools section elaborates.

Digital and Social Media: Recognition Awards[29]

Employers are bulking up their recognition programs with digital support. For example, Baudville offers a workplace recognition e-card service called ePraise.[30] Employers use it to tell employees they're appreciated. Intuit shifted its employee recognition, years of service, patent awards, and wellness awards programs to www.workhuman.com/, an online awards vendor. This "allowed us to build efficiencies and improved effectiveness" into the programs, says Intuit.[31]

Various new apps let employees showcase their awards, contributions, and praise from coworkers, and enable employees to praise each other.[32] For example, one lets employees "give recognition by picking out a badge and typing in a quick note to thank the people who matter most. . . . " Others let users post the positive feedback they receive to their LinkedIn profiles.

HR Tools for Line Managers and Small Businesses: How to Make Incentives More Effective

The supervisor need not rely just on the employer's financial incentive plans for motivating subordinates. There are too many opportunities to motivate employees every day to let those opportunities pass.

First, the best option for motivating an employee is also the simplest—*make sure the employee has a doable goal* and agrees with it. It makes little sense to use incentives if employees don't know their goals or don't agree with them. Psychologist Edwin Locke and his colleagues consistently found that setting specific, challenging goals leads to higher task performance than do specific unchallenging goals, vague goals ("do your best"), or no goals. So the first step is, set and get agreement on a goal.

Second, *recognize the employee's contribution*. Studies show that recognition (either just with a "well done!" or a small nonfinancial award) improves performance, either alone or combined with financial rewards. In one study, combining financial rewards with recognition produced a 30% performance improvement in service firms, almost twice the effect of using each reward alone. Figure 12-1 illustrates nonfinancial rewards.

- Challenging work assignments
- Freedom to choose own work activity
- Having fun built into work
- More of preferred task
- Role as boss's stand-in when he or she is away
- Role in presentations to top management
- Job rotation
- Peer-to-peer recognition, enabling employees to acknowledge each other's work.
- Being provided with ample encouragement
- Being allowed to set own goals
- Compliments
- Expression of appreciation in front of others
- Note of thanks
- Employee-of-the-month award
- Special commendation
- Bigger desk
- Bigger office or cubicle

FIGURE 12-1 Social Recognition and Related Positive Reinforcement Managers Can Use

Source: Based on Bob Nelson, *1001 Ways to Reward Employees* (New York: Workman Publishing, 1994), p. 19; Sunny C. L. Fong and Margaret A. Shaffer, "The Dimensionality and Determinants of Pay Satisfaction: A Cross-Cultural Investigation of a Group Incentive Plan," *International Journal of Human Resource Management* 14, no. 4 (June 2003), p. 559 (22).; and www.workhuman.com/blog/back-to-basics-what-is-social-recognition/, accessed December 12, 2022.

HR and The Gig Economy: Recognition, Nonfinancial Rewards, and Gig Workers

Some assume that pay is all that matters to gig workers, but that's not the case. One study found that gig workers will exhibit intrinsic motivation (motivation that comes from "inside" the person, driving him or her to do a good job), if the workers identify with the organization.[33] How to accomplish that? According to Mercer, a human resource management consultant, employers can do at least three things.[34]

PROVIDE MEANING AND STRUCTURE Everyone wants to feel they're contributing in a meaningful way. Use company communications to provide gig workers with a context within which to understand how they're contributing to the company's success.

CREATE A SENSE OF BELONGING AND CONNECTION At work most people want to feel that they're part of a community. Take steps to make gig workers feel they're part of something, such as through online communities where they share stories and ideas.

VALUE AND RESPECT YOUR WORKFORCE Treat your gig workers (and all workers) respectfully, and consider rewarding their progress with things like badges based on customer ratings.

Job Redesign

Although not usually considered an "incentive," job redesign (discussed in Chapter 4) can influence engagement and motivation. One study concluded that

job redesign is a primary driver of employee engagement. Another concluded that job responsibility and feedback were important drivers of employee engagement. Another study concluded that challenging work ranked as the seventh-most important driver for attracting employees.[35] Job redesign can thus be a useful part of a total rewards program.

The Strategic Context: The Fast-Food Chain

The heart of just about any fast-food chain's strategy is to control costs and performance: One chain asked, "Can financial and nonfinancial incentives boost performance in our fast-food chain?"

Two researchers studied the impact of financial and nonfinancial incentives on business performance in 21 stores of a Midwest fast-food franchise.[36] The researchers compared performance over time in stores that did and did not use financial and nonfinancial incentives. Each store had about 25 workers and two managers. The researchers trained the managers to identify measurable employee behaviors that were currently deficient but that could influence store performance. Example behaviors included "keeping both hands moving at the drive-through window" and "repeating the customer's order back to him or her."[37] Then the researchers instituted financial and nonfinancial incentive plans. They measured store performance in terms of gross profitability (revenue minus expenses), drive-through time, and employee turnover.

FINANCIAL INCENTIVES Some employees in some of the stores received financial incentives for exhibiting the desired behaviors. The financial incentives consisted of lump-sum bonuses in the workers' paychecks. For example, suppose the manager observed a work team exhibiting *up to 50 behaviors* (such as "working during idle time") during the observation period. Then the manager added $25 to the paychecks of all store employees that period; *50 to 100 behaviors* earned an extra $50 per paycheck, and *more than 100 behaviors* added $75 per paycheck. Payouts rose over time as the employees learned to enact the behaviors they were to exhibit.

NONFINANCIAL INCENTIVES The researchers trained the managers in some stores to use nonfinancial incentives such as feedback and recognition. For example, for *performance feedback* managers maintained charts showing the drive-through times at the end of each day. They placed the charts by the time clocks. Thus, these store employees could keep track of their store's performance on measures like drive-through times. The researchers also trained managers to administer *recognition* to employees. For instance, "I noticed that today the drive-through times were really good."[38]

RESULTS Both the financial and nonfinancial incentives improved employee and store performance.[39] For example, store profits rose 30% for those units where managers used financial rewards. Store profits rose 36% for those units where managers used nonfinancial rewards. During the same 9-month period, drive-through times decreased 19% for the financial incentives group, and 25% for the nonfinancial incentives groups. Turnover improved 13% for the financial incentives group, and 10% for the nonfinancial incentives group.

SOME IMPLICATIONS FOR MANAGERS Here are some implications one can draw from this study, for managers designing incentive plans:[40]

1. Link the incentive to the behavior that is essential for achieving the company's goals.[41] For example, this restaurant chain wanted to boost store performance and profits. Incentivizing employees to work faster and smarter achieved that.
2. It makes more sense to use an incentive plan when (1) motivation (not ability) is the problem; (2) when the employee's effort and results are directly related; and (3) when the employee can control the results that you're trying to incentivize.

3. Make sure the employee can see a clear link between the person's *effort* and *performance*, and between successful *performance* and *the reward*. And make sure that the incentive is one that's *attractive* to the employee, and also that the employee *has the skills* to do the job.
4. Don't just rely on material rewards. Supplement them with performance feedback (such as the performance graphs at this restaurant chain) and with recognition.[42]
5. Set complete standards. For example, don't only pay for "repeating the customer's order" if speed is important too.
6. Be scientific. As in this study, *gather evidence*. Analyze the effects of the incentive plan over time.[43]

LEARNING OBJECTIVE 12-3

Discuss the pros and cons of commissions versus straight pay for salespeople.

Incentives for Salespeople

Management guru Peter Drucker once famously said that "the purpose of a business is to create and keep a customer," and it is the salesforce that brings those customers in.[44] *Salesforce incentives* therefore play a big role in almost every company.[45]

Salary Plan

Sales compensation plans typically focus on salary, commissions, or some combination of the two.[46] Some firms pay salespeople fixed salaries (perhaps with occasional incentives such as one-time bonuses, or sales contest prizes).[47] Straight salary makes sense when the main aim is prospecting (finding new clients) or account servicing. Employee recruiting is another reason. Faced with difficulty attracting good salespeople, a car dealership in Lincolnton, North Carolina, offers straight salary as an option to salespeople who sell an average of at least eight vehicles a month (plus a small "retention bonus" per car sold).[48] Straight salary also makes it easier to switch salespersons' territories. The main disadvantage, of course, is that straight salary lacks commissions' motivation potential.

Commission Plan

Straight commission plans pay salespeople only for results. Commission plans tend to attract high-performing salespeople because they see that effort produces rewards. Sales costs are proportionate to sales rather than fixed, and the company's fixed sales costs are thus lower. Such plans are easy to understand and compute. Commission plan alternatives include straight commissions, quota bonuses (for meeting particular quotas), management by objectives programs (pay is based on specific metrics), and ranking programs (which reward high achievers but pay little or no bonuses to the lowest-performing salespeople). Some research suggests that commission-only plans increase salesperson stress, emotional exhaustion, and sick days.[49] About half of companies surveyed tie commissions to "top-line" measures like revenue, while the others use bottom-line criteria like profits; some also use nonsales measures, like calls made.[50]

However, in poorly designed plans, salespeople may focus on making the sale, and neglect nonselling duties such as servicing small accounts and pushing hard-to-sell items. Wide variations in pay can make some feel the plan is inequitable. Misjudging sales potential can lead to excessive commissions and to having to cut commission rates. Salespersons' pay may be excessive in boom times and low in recessions. Furthermore, sales performance—like any performance—reflects not just motivation, but also ability. If the person can't sell, commissions won't help. More employers are experimenting with cutting the link between sales and incentives. For example one firm switched to paying all salespeople a standard percent of a pool equal to 97% of what the salesforce had earned the past three years.[51]

Combination Plan

Most companies pay salespeople a combination of salary and commissions. The combination varies by industry and by what the company hopes to achieve, but a

split of about 60%–70% base salary and 40%–30% incentive seems typical.[52] Among other things, the duration and uncertainty of the company's sales cycle—how long it takes to confirm a sale—necessarily effects the proportion of fixed versus incentive pay.[53]

Combination plans have pros and cons.[54] They give salespeople a floor to their earnings, let the company specify what services the salary component is for (such as servicing current accounts), and still provide a performance incentive. But the salary isn't tied to performance, so the employer trades away some incentive value.

Combination plans also tend to be complicated, so misunderstandings can ensue. This isn't a problem with a simple salary-plus-commission plan, but most plans aren't so simple. For example, in a "commission-plus-drawing-account" plan, the salesperson is paid based on commissions. However, that person can draw on future earnings during low sales periods. In the "commission-plus-bonus" plan, the firm pays its salespeople mostly based on commissions. However, they also get a small bonus for directed activities like selling slow-moving items.

Improving Sales Incentive Plan Effectiveness

In setting sales quotas and commission rates, one wants to motivate sales activity but avoid excessive commissions. Unfortunately, the tendency to set commission rates informally, "based on what we've done before" often reduces such plans' effectiveness.[55]

Getting the sales compensation plan right is tricky. Even companies in the same industry are different and no two salespeople are alike, so there's rarely a single answer as to which plan is best. Complications including using games that supplement pay with awards (such as air miles) are rampant. *Activity-based incentives* are one option. Studies suggest that tying incentives to specific salesperson activities (such as customer calls per week) is more effective than just incentivizing sales.[56] Scientific analysis of what does or doesn't work is limited. It's therefore not surprising that about 80% of U.S. firms change their sales compensation programs at least every two years.[57]

Perhaps that's why setting effective sales quotas is still an art. Questions to ask include: Are quotas communicated to the salesforce within 1 month of the start of the period? Does the salesforce know how their quotas are set? Do you combine bottom-up information (like account sales forecasts) with top-down requirements (like the company business goals)? Are returns and de-bookings reasonably low?[58]

One expert suggests this rule as to whether the sales incentive plan is effective: 75% or more of the salesforce achieving quota or better, 10% of the salesforce achieving higher performance level (than previously), and 5% to 10% of the salesforce achieving below-quota performance and receiving coaching.[59] Also consider the effect of sales carryover: In most firms, a significant portion of the sales in one year reflects a "carryover" (sales that would repeat even without any efforts by the salesforce) of sales from the prior year. Paying the salesforce a commission on all the current year's sales means the employer pays a commission on last year's carryover sales, which the salesperson had little or no role in bringing in this year.[60]

A survey of sales effectiveness reveals that salespeople at high-performing companies:

- Receive 38% of their total cash compensation in the form of *sales incentive pay* (compared with 27% for salespeople at low-performing companies)
- Are twice as likely to receive stock, *stock options*, or other equity pay as their counterparts at low-performing companies (36% versus 18%)
- Spend 264 more hours per year on *high-value sales activities* (e.g., prospecting, making sales presentations, and closing) than salespeople at low-performing companies
- Spend 40% more time each year with their *best potential customers*—qualified leads and prospects they know—than salespeople at low-performing companies
- Spend nearly 25% *less time on administration*, allowing them to allocate more time to core sales activities, such as prospecting leads and closing sales[61]

Distinguishing among performers is also important. For example, some companies distinguish among stars, laggards, and core sales performers. Companies that limit commission earnings can perversely encourage stars to stop selling when they reach their quotas. Laggards do better with more frequent, quarterly bonuses and social pressure to improve. Core performers—the midrange of the salesforce—need multitier targets. The first tier target is what sales agents historically attain. The second tier is what a small percentage of the salesforce attains. The third tier target is usually only attained by the company's star salespeople.[62] One expert advocates "acceleration": here the commission rate rises for those who meet their sales targets.[63] Finally, track cost of sales—for instance, a salesperson's *salary* plus *commissions* (assuming 100% of quota) plus *bonus* opportunities—divided by that person's sales revenues.[64]

ENTERPRISE INCENTIVE MANAGEMENT Many employers use Enterprise Incentive Management (EIM) software to track and control sales commissions.[65] For example, Oracle Incentive Compensation enables management to easily create scorecard metrics such as number of prospecting calls and sales contracts, and to monitor these and commissions paid in real time on the system's dashboards. It also helps users gamify the sales incentive process, by awarding points or badges based on each sales rep's performance, and to flag those who may be lagging. The salespeople have their own mobile commissions app, to track their commissions-earned progress.[66]

Sales Incentives in Action

Traditionally, a car salesperson's commission is based on a percentage of the difference between the dealer's invoice cost and the amount the car is sold for, minus an amount to cover the "pack" or dealer overhead (the pack being perhaps $300 for a new car to $800 for a used car, and rising for pricier cars).[67]

This approach encourages the salesperson to hold firm on the retail price, and to push "after-sale products" like floor mats and side moldings. There may also be extra incentives to sell packages such as rustproofing. For selling slow-moving vehicles, the salesperson may get a "spiff"—an extra incentive bonus over commission. And there are bonuses, such as Salesperson of the Month (perhaps $300 for most cars sold).[68]

LEARNING OBJECTIVE 12-4

Describe the main incentives for managers and executives.

Incentives for Managers and Executives

Managers play a crucial role in divisional and companywide profitability, and most employers therefore think through how to reward them. Most managers get short-term and long-term incentives in addition to salary. Short-term incentives might include, for instance, annual incentive plans (which reward achieving preset results and are usually paid in cash), discretionary bonuses (based on performance), retention bonuses, and the manager's share of any profit-sharing plan.[69] To link shareholders' and managers' interests, long-term incentives are often paid in stock or stock options.

Role of Strategy in Formulating the Executive's Total Rewards Package

Historically the typical CEO's salary accounted for about one-fifth of his or her pay. A bonus based on explicit short-term performance standards accounted for another fifth, and long-term incentive awards such as stock options accounted for the remaining three-fifths.[70] Then, in 2021, Tesla's Elon Musk earned just over $6.6 *billion* by taking all his CEO pay in performance-based stock options. Perhaps in part due to this, the trend today is to much more heavily weight longer-term stock awards and stock options in CEOs' pay. Recently Tim Cook, Apple's CEO earned a $3 million salary, a $10 million cash bonus, and over $250 million in stock grants. Safra Catz, Oracle's CEO, earned over $69 million, entirely from her stock option award.[71]

An increased emphasis on long-term performance makes sense. Whether consolidating operations or pursuing growth, firms can't implement most strategies in just a year or two. Therefore, the long-term signals you send managers via long-term incentives can determine whether the firm's strategy succeeds.

Compensation experts suggest starting with the company's strategic aims—"What is our strategy, and what are our strategic goals?" Then decide what long-term behaviors (boosting sales, cutting costs, and so on) are required for achieving these strategic goals. Next shape each component of the executive total compensation package—base salary, short-term bonus, long-term incentives, and benefits—to encourage those required behaviors. Finally, combine the components into a total rewards plan.

Using multiple performance criteria for incentivizing executives is advisable. Criteria can include various measures of financial performance, number of strategic goals met, employee productivity measures, customer satisfaction surveys, diversity, and employee morale surveys.[72]

SARBANES–OXLEY The Sarbanes–Oxley Act of 2002 affects how employers formulate their executive incentive programs. Congress passed Sarbanes–Oxley to inject a higher level of responsibility into executives' and board members' decisions. It makes them personally liable for violating their fiduciary responsibilities to their shareholders. The act also requires CEOs and CFOs of a public company to repay any bonuses, incentives, or equity-based compensation received from the company during the 12-month period following the issuance of a financial statement that the company must restate due to material noncompliance with a financial reporting requirement stemming from misconduct. Among other things the act seems to have reduced, to some degree, the propensity for doing riskier mergers and acquisitions.[73]

Short-Term Incentives and the Annual Bonus

annual bonus
Plans that are designed to motivate short-term performance of managers and that are tied to company profitability.

Most firms have **annual bonus** plans for motivating managers' short-term performance. This bonus is often substantial. Three factors influence one's bonus: eligibility, fund size, and individual performance.

ELIGIBILITY Employers first decide eligibility. Traditionally, employers based annual bonus eligibility on officer status, job level/title, or base salary.[74] The trend however is to offer a wider range of employee annual incentive plans " . . . in which both executives and other employees participate."[75]

The percentage size of any bonus is typically greater for top executives. Thus, an executive earning $250,000 in salary may be able to earn another 80% of his or her salary as a bonus, while a manager in the same firm earning $100,000 can earn only another 30%.

FUND SIZE Second, one must determine how big the annual bonus fund should be. Most employers use the sum of targets approach.[76] This means they estimate the likely (or "target") bonus for each eligible employee, and total these for all eligible employees to arrive at the bonus pool's size.

Some employers fund the short-term bonus based solely on financial results. Here there are no fixed rules about how much of the profits to pay out. One alternative is to reserve a minimal amount of the profits, say, 10%, for safeguarding stockholders' investments. Then establish a fund for bonuses equal to, say, 20% of the operating profit (profit from the company's core business) before taxes in excess of this safeguard amount. Suppose the operating profits were $200,000 (after putting away 10% to safeguard stockholders). Then the management bonus fund might be 20% of $200,000, or $40,000.

Most employers use more than one financial measure on which to base the bonus fund; sales, earnings per share, and cash flow are the most popular.[77] Other illustrative formulas include:

- Twelve percent of net earnings after deducting 6% of net capital
- Ten percent of the amount by which net income exceeds 5% of stockholders' equity

Employers also use formulas to set their bonus pools based on other measures they wish to emphasize, such as diversity, and safety. Other firms decide bonuses on a discretionary basis.

Even in retail stores, it's not unusual to compensate managers partly based on short-term sales and profits.

Shutterstock

THE INDIVIDUAL AWARDS Finally, one must decide the actual individual awards. Typically, the employer sets a target bonus (as well as a maximum bonus, perhaps double the target bonus) for each eligible position. The actual bonus then reflects the manager's performance. For example, the employer first decides which financial performance measures (return on assets, revenue growth, and so on) to use to measure each manager's performance. Then the employer computes preliminary total company bonus estimates, and compares the total amount of money required with the bonus fund available.[78] If necessary, it then adjusts the individual bonus estimates. In any case, outstanding managers should receive at least their target bonuses. Marginal ones should receive at best below-average awards. Use what you save on the marginal employees to supplement the outstanding ones.

One question is whether to give managers bonuses based on individual performance, corporate performance, or both. Firms usually tie top-level executive bonuses mostly to overall corporate results (or divisional results if the executive heads a major division). But as one moves farther down, corporate profits become a less-accurate gauge of a manager's contribution. For supervisors or the heads of functional departments, it often makes more sense to base the bonus more on individual performance.

Many firms end up tying short-term bonuses to both organizational and individual performance. Perhaps the simplest method is the *split-award plan*. This makes the manager eligible for two bonuses, one based on his or her individual effort and one based on the organization's overall performance. Thus, a manager might be eligible for an individual performance bonus of up to $10,000, but receive only $2,000 at the end of the year, based on his or her individual performance evaluation. But the person might also receive a second bonus of $3,000, based on the firm's profits for the year.

One drawback to this approach is that it may give marginal performers too much—for instance, someone could get a company-based bonus, even if his or her own performance is mediocre. One way to avoid this is to use the *multiplier method*. As Table 12-2 illustrates, multiply the person's target bonus by 1.00, 0.80, or zero (if the firm's performance is excellent, and the person's performance is excellent, good, fair, or poor). A manager whose own performance is poor does not even receive the company-based bonus.

LONG-TERM INCENTIVES Employers use *long-term incentives* to inject a long-term (strategic) perspective into their executives' decisions. With only short-term (generally one year) criteria to shoot for, a manager could conceivably boost profitability by reducing

TABLE 12-2 Multiplier Approach to Determining Annual Bonus

Individual Performance (Based on Appraisal, Weight = 0.50)	*Company Performance (Based on Sales Targets, Weight = 0.50)*			
	Excellent	Good	Fair	Poor
Excellent	1.00	0.90	0.80	0.70
Good	0.80	0.70	0.60	0.50
Fair	0.00	0.00	0.00	0.00
Poor	0.00	0.00	0.00	0.00

Note: To determine the dollar amount of a manager's award, multiply the maximum possible (target) bonus by the appropriate factor in the matrix.

plant maintenance, for instance. This tactic might catch up with the company 3 or 4 years later. Popular long-term incentives include cash, stock options, stock, stock appreciation rights, and phantom stock.[79]

Well-designed long-term incentives such as stock options should only pay off if the firm achieves its previously set strategic goals (such as "double our rate of return"). Long-term incentives may also be "golden handcuffs," motivating executives to stay by letting them accumulate capital (usually options to buy company stock) that they can cash in only after a certain period.

stock option
The right to purchase a stated number of shares of a company stock at today's price at some time in the future.

STOCK OPTIONS A **stock option** is the right to purchase a specific number of shares of company stock at a specific price during a specific period. The executive thus hopes to profit by exercising his or her option to buy the shares in the future but at today's price. This assumes the stock will go up. Unfortunately, this depends partly on considerations outside the manager's control.[80] When stock markets dropped a while ago, many employers including Intel and Google adjusted their option plans to boost the likely payout.[81]

The chronic problem with stock option plans is that many reward even managers who have lackluster performance, but there are also other problems. Several years ago some executives allegedly lied about the dates they received their options, so as to boost their returns. Options may also encourage executives to take perilous risks in pursuit of higher profits.[82] One alternative may be to force recipients to convert their options into stock sooner. One paper argues that it's probably cheaper just to pay cash awards than stock options.[83]

HR Practices Around The Globe: When Stock Options May Not Work Well

For many years, China basically prohibited publicly listed companies from offering stock incentive plans to their managers.[84] However improved economic conditions and an evolving political philosophy led to new regulations. Soon 42 Chinese-listed companies were permitting such plans.

A study focused on those 42 companies. It sought to determine how the new incentive plans affected company performance. To understand the findings it's important to know that managing in China still has unique characteristics. For example, prior to becoming publicly listed firms, the big firms were usually owned by the government. Furthermore, the government may well continue to retain certain ownership control rights even after the firms go on the stock market. In such cases, the goals of the owners and the management may diverge. For example, government owners might want to maximize employment, rather than profitability. The question is, given such cultural and political realities, do management stock option plans in China translate into improved company performance, as they often do in the United States?

The researchers compared the performance of the 42 Chinese companies that did adopt management stock option plans with a control group of firms without such plans. One thing they found was that the stock option plans did improve firm performance in companies controlled by private shareholders, but not in companies controlled by the government. In the latter, goals such as maximizing employment may have outweighed boosting profits, thus limiting managers' profit-boosting efforts.

The findings highlight why managing globally is challenging. In this case, a stock option plan that might improve financial performance in the United States might fail in China, where the government owners' goals may well differ from the desire of managers to boost profits, other stock plans. ■

OTHER STOCK PLANS Other short-term incentive plans aim to tie rewards more explicitly to performance goals. Therefore instead of stock options, more firms are granting various types of performance-based shares. With *performance-contingent restricted stock* the executive receives shares only if the person meets preset performance targets.[85] With (time-based) *restricted stock plans*, the firm usually awards rights to the shares without cost to the executive but the employee is restricted from acquiring (and selling) the shares for, say, five years, and the award may be subject to forfeiture if the recipient ceases to be employed by the company for a set period. Unlike options, the recipient usually pays nothing for the stock. The employer's aim is to retain the employee's services during that time.[86] With *indexed options*, the option's exercise price fluctuates with the performance of, say, a market index. If the company's stock does no better than the index, the manager's options are worthless. With *premium priced options*, the exercise price is higher than the stock's closing price on the date of the grant, so the executive can't profit from them until the stock makes significant gains.[87]

Stock appreciation rights (SARs) let the recipient exercise the stock option (by buying the stock) *or* take any appreciation in the stock price in cash, stock, *or* some combination of these. Under *phantom stock plans*, executives receive not shares but "units" that are similar to shares of company stock. Then at some future time, they receive value (usually in cash) equal to the appreciation of the "phantom" stock they own. Neither SARs nor phantom stock awards recipients stock, but rather the right to receive an award that's based on the stock price.[88] A *performance achievement plan* awards shares of stock for the achievement of predetermined financial targets, such as profit or growth in earnings per share. Most employees seem to prefer cash bonuses to either stock options or restricted stocks. Due to differences in employee preferences, when possible, enable each employee to choose whether to receive stock options or restricted stock.[89]

POTENTIAL PROBLEMS Two problems plague executive incentives: short termism, and narrow focus. Many plans encourage short-term thinking. For example, the manager boosts earnings per share (and his or her short-term bonus) by cutting R&D; that in turn hurts earnings three or four years down the road. Relatedly, tying the incentive to one metric rather than to several can encourage counterproductive behavior. For example, incentivize the manager just for earnings, and the person could boost earnings by cutting advertising, which in turn causes future revenues (unmeasured by the bonus plan) to fall.[90]

Three experts suggest several solutions. First, use *multiple metrics*, for instance earnings, and revenue growth, and R&D spending.[91]

Second, reward performance *relative to competitors*. For example, increasing a company's earnings when industry earnings grew 10%, isn't as impressive as increasing them when industry earnings fell. Rewarding performance relative to competitors also forces top managers to analyze what their competitors are doing, and thus how to improve their firm's relative position.

Third, include *nonfinancial targets*. Nonfinancial targets (such as employee engagement, diversity, and customer satisfaction) are harder to "game" than financial targets (such as boosting earnings by cutting R&D). Furthermore, nonfinancial measures can and do affect a company's long-term performance.

ETHICS AND INCENTIVES Anyone designing a long-term incentive plan should remember the management truism: "People put their efforts where they know they'll be rewarded."[92] A highway truck stop company arranged to pay managers commissions and bonuses based on how much diesel fuel trucking firms purchased each month. Federal prosecutors allege that this encouraged the managers to withhold the volume rebates the trucking firms were supposed to get. That raised apparent revenues. In one year, one officer with a base salary of about $400,000 earned about $14 million in bonuses and pay.[93]

Some Other Executive Incentives

golden parachute
A payment companies make in connection with a change in ownership or control of a company.

Companies offer other executive incentives. Some incentivize executives to stay with the firm. This is especially important when executives might flee because someone is stalking the firm with intentions to buy it. **Golden parachutes** are extraordinary payments (usually a combination of severance pay, accelerated vesting, and other benefits) made to executives in connection with a change in company ownership or control.[94] Some firms use loans as incentives, for example by guaranteeing large loans to directors and officers so they can buy company stock.

DIVERSITY COUNTS

Incentivizing Diversity

More employers are incentivizing executives to achieve DEI goals. For example, McDonald's Corp. recently adjusted its top executive bonus plan to include DEI outcomes. Under this plan, it set targets for the proportion of women, blacks, and other underrepresented groups in senior leadership positions. It wants 35% of U.S. senior management to be from underrepresented groups by 2025, up by 29% in four years. McDonald's CEO would lose 15% of his approximately $2.25 million dollar annual bonus if the company failed to meet the new goals.[95] Microsoft extended its own DEI incentive program to the law firms it hires. It pays 2% to 3% of a law firm's Microsoft billings as a bonus if the law firm achieves certain DEI targets.[96]

At least until recently, only about 15% to 20% of big companies were including DEI goals in their executive incentive plans. Most that do focus on representation goals: in other words, on the number and/or proportion of underrepresented group members who they hire.[97]

The consulting firm Mercer suggests several ways to make such plans more effective. Make sure the DEI goals are *measurable*. Make sure your company *culture* supports the plan's effectiveness—for example obtain support of influential stakeholders for the plan. Decide whether to emphasize *short-term* or long-term incentives or both (most start with short-term plans). And decide *which outcomes* you're going to focus on. Recently, most employers were focusing on representation targets. However, measuring other outcomes (for instance in terms of improvements in survey results) is feasible.[98] ■

LEARNING OBJECTIVE 12-5

Name and describe the most popular organizationwide incentive plans.

Team and Organizationwide Incentive Plans

We've focused so far on individual employee incentives (such as piecework, sales commissions, and executive bonuses). We turn now to incentives for teams, and for employees companywide.

How to Design Team Incentives

team (or group) incentive plan
A plan in which a production standard is set for a specific work group, and its members are paid incentives if the group exceeds the production standard.

Firms increasingly rely on teams to manage their work. They therefore need incentive plans that focus their teams on performance, and encourage teamwork. **Team (or group) incentive plans** pay incentives to the team based on team performance.

The main question here is how to reward the team's performance, and the wrong choice can be lethal. Levi Strauss switched from an individual to a team incentive plan, one that rewarded the team as a whole for its output. Unfortunately, they ignored the fact that some employees worked harder than others. The slower ones (economists sometimes call them "free riders" because they take a free ride on others' efforts) were paid the same as the faster ones. The faster ones, no longer individually incentivized, slowed down, production declined, and Levi's closed its U.S. factories.

Given the potential free rider problem, companies usually incentivize teams in one of three ways: they pay the same incentives to each team member based on some overall measure, or pay different rates to each member based on performance, or pay different rates to each in some proportion to each team member's base pay.[99]

Team incentives can foster a sense of cooperation and unanimity.

Konstantin Chagin/Shutterstock

Free riders notwithstanding, the usual approach is probably still to tie rewards to some overall standard of group performance, such as "10 labor hours per car." One company established such an overall standard for its work teams. If the firm reached 100% of its goal, the employees would share in about 5% of the improvement (in labor costs saved). The firm divided the resulting bonus pool by the number of employees to compute the value of a "share." If the firm achieved less than 100% of its goal, the bonus pool was less. The results of this plan in terms of focusing teams on the firm's performance goals were reportedly "extraordinary."[100] Firms such as Toyota that use team plans rely on employee selection, training, and peer pressure to minimize free riding.

While most employers just use their experience to estimate what the team goal or standard should be ("10 total labor hours per car"), others carefully engineer their production standards. If so, the employer typically bases the team incentive on either the piece rate or standard hour plan. All team members then typically receive the same share of the team's incentive pay. Thus, the team might receive, say, $5 for each wheel installed above the industrially engineered "standard" of 10 wheels per hour.

Occasionally, the employer may want to pay team members according to some other formula. For instance, instead of paying each team member based on how well the team as a whole does, pay everyone based on how well the *best* team member does. This counterintuitive option may make sense when an employer has reason to believe the new team incentive plan might demotivate high-performing team members. That's what happened at Levi's.

Team incentives often make sense. They reinforce teamwork and can help ensure cooperation. Team incentives also facilitate training, since each member has an interest in getting new members up to speed fast. The main disadvantage is the demotivating effects of free rider workers: they share in the team-based pay but don't put their hearts into it.

Evidence-Based HR: What Makes Team Incentives Effective?

Although about 85% of large employers reportedly use group- or team-based incentives, studies suggest that they're often counterproductive. Why?

A researcher studied business students enrolled in a graduate online MBA program.[101] She devised a method for categorizing how they said they reacted to the team incentives they'd experienced in the past.

Inequity was the big problem.[102] Sometimes all team members' financial compensation was the same, although one or two people "did the lion's share of the work." In other cases, the employer chose one or two team members for promotion, leaving others to feel they'd worked hard to support someone else's career. The conclusion is that unless one takes steps to minimize such inequities, it may be best to pay employees based on individual plans, rather than on collective team performance.

A second study took place in a retail chain in Europe. The chain had about 1,300 employees and 193 shops, or around seven employees per shop. The researchers randomly introduced a team incentive in about half the shops. In those shops the shop's team of workers received 300 euros—about $340—for achieving the company's preexisting sales targets.[103]

The program was quite successful. Each dollar spent on the bonus produced $3.80 in sales and $2.10 in profits. Interestingly, peer pressure aimed at reducing the free rider problem seemed of little importance. What was important was what the researchers called "complementarities," such as a willingness to assist each other. So, perhaps not surprisingly, these studies both suggest that cooperativeness—the willingness and ability to amicably work together—is an important determinant of team incentive effectiveness.

Organizationwide Incentive Plans

organizationwide incentive plan
Incentive plan in which all or most employees can participate.

Many employers take the team incentive idea to the next level and institute incentive plans in which all or most employees participate. **Organizationwide incentive plans** are plans in which all or most employees can participate, and which generally tie the reward to some measure of companywide performance. Also called *variable pay plans*, we'll look at them next.

Profit-Sharing Plans

profit-sharing plan
A plan whereby employees share in the company's profits.

Profit-sharing plans are plans in which all or most employees receive a share of the firm's annual profits. While that sounds good in theory, free riders may again be a problem: Some may ask, "If everyone gets paid the same whether they work hard or not, why bother?"[104]

Research is sketchy. Older studies found evidence that profit-sharing plans boost productivity and morale, but that their effect on profits is insignificant, once you factor in the costs of the plans' payouts.[105] Another study, in Spain, concluded that profit-sharing plans improve employee commitment.[106] A more recent study found that employee earnings rose faster in firms with profit-sharing plans.[107]

There are several profit-sharing plans. With *current profit-sharing* or cash plans, employees share in a portion of the employer's profits quarterly or annually. Here the firm simply distributes a percentage of profits (usually 15% to 20%) as profit shares to employees at regular intervals. For example, Southwest Airlines offered a broad-based (almost everyone is eligible) profit-sharing plan for employees. Several years ago it distributed a $228 million profit-sharing payout to employees.[108]

With *deferred profit-sharing* plans, the employer puts cash awards into trust accounts for the employees' retirement.[109] Employees' income taxes on the distributions are deferred until the employee retires or withdraws funds from the plan (thus "deferred profit-sharing plans"). Such plans are essentially pension plans that give the employer the option of deciding each year how much to contribute to the plan.

Scanlon Plans

Scanlon plan
An incentive plan developed in 1937 by Joseph Scanlon and designed to encourage cooperation, involvement, and sharing of benefits.

Few would argue with the idea that one of the best ways of ensuring that employees are engaged and motivated is to ensure that by pursuing his or her goals, the worker pursues the employer's goals as well. Experts have proposed many ways to achieve this. However, few have been as successful as the **Scanlon plan**, developed in 1937 by Joseph Scanlon, a United Steel Workers Union official.[110] It is still popular today.

The Scanlon plan is remarkably progressive, considering that it is now more than 80 years old. Scanlon plans have five basic features.[111] The first is Scanlon's *philosophy of cooperation*. This philosophy assumes that managers and workers must rid themselves of the "us" and "them" attitudes that normally inhibit employees from developing a sense of ownership in the company.

A second feature is what its practitioners call *identity*. This means that in order to focus employee involvement, the company must articulate its mission or purpose, and employees must understand how the business operates in terms of customers, prices, and costs. *Competence* is a third basic feature. The program, say three experts, "explicitly recognizes that a Scanlon plan demands a high level of competence from employees at all levels."[112] This suggests careful selection and training.

The fourth feature of the plan is the *involvement system*. Employees present improvement suggestions to the appropriate departmental-level committees, which transmit the valuable ones to the executive-level committee. It then decides whether to implement the suggestion.

The fifth element of the plan is the *sharing of benefits formula*. If a suggestion is implemented and successful, all employees usually share in 75% of the savings. For example, assume that the normal monthly ratio of payroll costs to sales is 50%. (Thus, if sales are $600,000, payroll costs should be $300,000.) Assume the firm implements suggestions that result in payroll costs of $250,000 in a month when sales were $550,000 and payroll costs therefore should have been $275,000 (50% of sales). The savings attributable to these suggestions is $25,000 ($275,000 minus $250,000). Workers would typically split 75% of this ($18,750), while $6,250 would go to the firm. In practice, the firm sets aside about one-quarter of the $18,750, for months when payroll costs exceed the standard.

Other Gainsharing Plans

gainsharing plan
An incentive plan that engages employees in a common effort to achieve productivity objectives and share the gains.

The Scanlon plan is one early version of today's **gainsharing plans**. Gainsharing is an incentive plan that engages many or all employees in a common effort to achieve a company's productivity objectives, with any resulting cost-savings gains shared among employees and the company.[113] In addition to the Scanlon plan, other popular gainsharing plans include the Lincoln, Rucker, and Improshare plans.

The basic difference among these plans is how employers determine employee bonuses. The Scanlon formula divides payroll expenses by total sales (or, sometimes, by total sales plus increases in inventory). In one version of the *Lincoln incentive system*, first instituted at the Lincoln Electric Company of Ohio, employees work on a guaranteed piecework basis. The company then distributes total annual profits (less taxes, 6% dividends to stockholders, and a reserve) each year among employees based on their merit rating. Most firms customize their gainsharing plans.

Results support gainsharing's effectiveness in settings ranging from automotive parts manufacturers to hospitals. For example, in one study cost savings achieved by hospital physicians translated into cash payments to the physicians.[114] The U.S. Department of Health and Human Services approved certain hospital gainsharing plans.

At-Risk Pay Plans

Pay-for-performance plans can support an employer's cost control efforts. Base pay and benefits represent the lion's share of labor costs, and normally neither varies much even when sales plummet.[115] (Pay cuts adversely affect morale, and if sales fall one year, it's generally hard to cut labor costs without downsizing.) In an **earnings-at-risk pay plan**, employees agree to put some portion (say, 10%) of their normal pay at risk (forego it) if they don't meet their goals, in return for possibly obtaining a much larger bonus if they exceed their goals. For example, put part of the employees' pay "at risk" by replacing (1) 10% of each worker's wages with (2) a 10% bonus if the company meets its goals plus an additional 3% bonus if it exceeds these goals.

earnings-at-risk pay plan
Plan that puts some portion of employees' normal pay at risk if they don't meet their goals, in return for possibly obtaining a much larger bonus if they exceed their goals.

Employee Stock Ownership Plans

employee stock ownership plan (ESOP)
A corporation contributes shares of its own stock to a trust in which additional contributions are made annually. The trust distributes the stock to employees on retirement or separation from service.

With **employee stock ownership plans (ESOPs)**, the employer contributes shares of its stock (or cash to be used to purchase such stock) to a trust set up to purchase shares of the firm's stock for employees. The firm generally makes these contributions to the trust annually, in proportion to total employee compensation, up to a limit of 15% of compensation. The trust holds the stock in individual employee accounts. It then distributes the stock to employees upon retirement (or other separation from service), assuming the person has worked long enough to earn ownership of the stock.

ESOPs are popular. The company receives a tax deduction equal to the fair market value of the shares it transfers to the trustee; it can also claim an income tax deduction for dividends paid on ESOP-owned stock.[116] Employees, as noted, aren't taxed until they receive a distribution from the trust, usually at retirement. The Employee Retirement Income Security Act (ERISA) allows a firm to borrow against employee stock held in trust and then repay the loan in pretax rather than after-tax dollars, another tax incentive.[117]

ESOPs can also help shareholders of closely held corporations (for instance, a family owns all the shares of a small regional bank and wants to sell all or some of its shares). They place some of their shares of the bank's stock into the ESOP trust. The banking company compensates them (perhaps by borrowing the money) for the shares they put in the trust, and the family then uses those funds to buy other assets.[118]

Studies suggest that ESOPs correlate with performance, but that it's probably "the cooperative culture that can be fostered by employee ownership that drives better workplace performance in ESOP firms."[119] In any case, the company's board and management have legal and fiduciary responsibilities for the ESOP fund, and must manage the fund prudently.

BROAD-BASED STOCK OPTIONS Some companies offer "broad-based stock option plans" in which all or most employees can participate. (Definitions of what is "broad-based" range from at least 20% of a company's employees, to a majority of full-time employees, to a plan "which includes most non-management employees.")[120] Perhaps because such plans foster a sense of cooperation and ownership (as do ESOPs), at least one study concluded that firms with broad-based stock option plans had higher productivity and annual growth rates than peers.[121] An analysis of 176 such broad-based employee stock ownership plans suggests a mechanism to explain their effectiveness. The broad-based stock plan, *when combined with employee perceived involvement practices*, improves what the researchers call organizational social cohesion. That in turn reduces voluntary turnover, and that improves labor productivity.[122]

Incentive Plans in Practice: Nucor

Nucor Corp. is the largest steel producer in the United States. It also has the highest productivity and lowest labor cost per ton, consistently ranks as a "Best Places to Work," and hasn't had layoffs in decades.[123] Employees can earn bonuses of 100% or more of base salary, and all participate in one of four performance-based incentive plans. With the *production incentive plan*, operating and maintenance employees and supervisors get weekly bonuses based on their work groups' productivity. The *department manager incentive plan* pays department managers annual incentive bonuses based mostly on the ratio of net income to dollars of assets employed for their division. With the *professional and clerical bonus plan*, employees not in one of the two previous plans get bonuses based on their divisions' net income return on assets.[124] Finally, under the *senior officer incentive plan*, Nucor senior managers (whose base salaries are lower than those comparable firms) get bonuses based on Nucor's annual overall percentage of net income to stockholders equity. Nucor sets aside at least 10 cents out of every dollar Nucor earns before taxes to fund its profit sharing plans.[125] Depending on company performance, this may be from 1% to over 20% of an employee's pay. Nucor employee Glassdoor reviews are supportive of the pay, but some employees complain of stress, inflexible schedules, and overly tight production standards.[126]

LEARNING OBJECTIVE 12-6

Explain how to use incentives to improve employee engagement.

Employee Engagement Guide for Managers

Incentives and Engagement

A survey of 736 compensation professionals provides some insights into the role of incentive pay in fostering employee engagement.[127] Here is what the researchers found.

First, although the compensation professionals believed that total rewards programs can influence employee engagement, most of them did *not* specifically include employee engagement as one of the goals of their rewards programs.

Second, the researchers concluded that the most direct ways to encourage employee engagement with incentives are (1) to measure the extent to which *supervisors are encouraging their subordinates to be engaged*, and (2) to *use incentives to reward supervisors for improving employee engagement*.

Third, *getting employees involved* in developing the rewards programs was the "gold standard" for building employee cooperation and commitment.

So, in brief: Make improving employee engagement a formal target of your compensation plan; appraise and incentivize your supervisors partly based on the steps they take to improve their subordinates' engagement; and get employee input in devising the incentive plan.

Chapter Review

Chapter Section Summaries

12-1. In designing an effective financial incentive plan, it's important to understand the relationship between **money and motivation**. Hertzberg said the best way to motivate someone is to organize the job so that it provides the feedback and challenge that help satisfy the person's higher-level needs. Deci found that extrinsic rewards may actually detract from a person's intrinsic motivation. Vroom's expectancy motivation theory says a person's motivation depends on expectancy, instrumentality, and valence. Skinner's behavior modification–based approach means changing behavior through rewards or punishments that are contingent on performance.

12-2. Piecework is an **individual employee incentives and recognition program** incentive plan in which a person is paid a sum for each item they make. Merit pay is a salary increase awarded based on individual performance. Nonfinancial and recognition-based awards include awards in the form of employee recognition, gift certificates, and individual travel. Many employers use enterprise incentive management systems to automate the planning, analysis, and management of their incentive plans.

12-3. **Incentives for salespeople** are typically sales commissions. Although the percentage of pay in the form of sales commission may vary, a survey found that salespeople at high-performing companies receive about 38% of their total cash compensation in sales-related variable pay.

12-4. Managers take many things into consideration when formulating **incentives for managers and executives**. Most firms have annual bonus plans aimed at motivating managers' short-term performance. The actual award often depends on some combination of individual performance and organizational performance, so that, for instance, high-performing managers get a bonus even if the company itself underperforms. Long-term incentives include stock options, "golden parachutes," and stock appreciation rights.

12-5. With more employers organizing their efforts around teams, **team and organizationwide incentive plans are more important**. With team incentives, the main question is whether to reward members based on individual or team performance; both have pros and cons. Organizationwide incentive plans are plans in which all or most employees can participate. These include profit-sharing plans in which employees share in the company's profits. Gainsharing plans, including the Scanlon plan, engage employees in a common effort to achieve productivity objectives and thereby share the gains. With employee stock ownership plans the employer contributes shares of its own stock to a trust established to purchase shares of the firm's stock for employees.

12-6. Consciously make **employee engagement** a goal of your compensation plan; appraise and incentivize supervisors partly based on their effectiveness in improving their subordinates' engagement; and if possible enable employees to participate in devising the compensation plan.

Discussion Questions

12-1. Compare and contrast six types of incentive plans.
12-2. Explain five reasons why incentive plans fail.
12-3. Describe some important management incentives.
12-4. You are applying for a job as a manager and are at the point of negotiating salary and incentives. What questions would you ask your prospective employer concerning incentives? Describe the incentives package you would try to negotiate for yourself.
12-5. In this chapter, we listed a number of guidelines for instituting a pay-for-performance plan. Do you think these guidelines make sense in terms of motivation theory? Why or why not?
12-6. What is merit pay? Do you think it's a good idea to award employees merit raises? Why or why not?
12-7. Give four examples of when you would suggest using team or group incentive programs rather than individual incentive programs.

Individual and Group Activities

12-8. Working individually or in groups, create an incentive plan for the following positions: chemical engineer, plant manager, used-car salesperson. What factors did you have to consider in reaching your conclusions?
12-9. A state university system in the Southeast instituted a "Teacher Incentive Program" (TIP) for its faculty. Faculty committees within each of the university's colleges were told to award $5,000 raises (not bonuses) to about 40% of their faculty members based on how good a job they did teaching undergraduates, and how many courses they taught per year. What are the potential advantages and pitfalls of such an incentive program? How well do you think it was accepted by the faculty? Do you think it had the desired effect?
12-10. The HRCI *Exam Content Outline* website https://www.hrci.org/docs/default-source/web-files/phr-exam-content-outline.pdf?sfvrsn=13c44f61_28 lists the knowledge someone studying for the HRCI PHR certification exam needs to have in each area of human resource management (such as in Business Management, and in Talent Planning and Acquisition).[128] In groups of several students, do four things: (1) review the *Exam Content Outline* on that website; (2) identify the material in this chapter that relates to the Exam Content Outline's required "Knowledge Of" lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.
12-11. Several years ago, the pension plan of the Utility Workers Union of America proposed that shareholders change the corporate bylaws of Dominion Resources, Inc., so that in the future management had to get shareholder approval of executive pay exceeding $1 million, as well as detailed information about the firm's executive incentive plans. The union pointed out that, usually, under IRS regulations, corporations can't deduct more than $1 million in pay for any of a company's top five paid executives. Under the new rules the Utility Workers Union is pushing, boards of directors will no longer be able to approve executive pay above $1 million; instead, shareholders would have to vote on it. In terms of effectively running a company, what do you think are the pros and cons of the union's recommendations? Would you vote for or against the union's recommendation? Why?

Experiential Exercise

Motivating the Employees at Pearson Urgent Care

Written and copyrighted by Gary Dessler, PhD.

Purpose: The purpose of this exercise is to give you practice developing an incentive plan.

Required Understanding: Be thoroughly familiar with this chapter, and read the following:

Pearson Urgent Care is a chain of walk-in medical urgent care centers in New York City. Each walk-in center has about 12 full-time employees; Pearson's total number of employees is therefore about 75, including the walk-in center employees and central office accountants, clerks, and managers. Pearson is run by Taylor Pearson MD. Her main business problem now is that online Yelp-type walk-in center reviews are abysmal. Common customer complaints include:

- Front desk clerks who greet patients and obtain their medical history forms seem unfriendly and unhelpful.
- Nurses who take the patients to the examining rooms and review their medical histories seem uncaring.
- Doctors seem rushed and unwilling to explain in detail what the patient's problem is or how to deal with it.
- X-ray technicians seem rushed.

Table 12-3 summarizes Pearson's walk-in center compensation plan. As you can see, Pearson currently pays all its walk-in center team members based on wages or salaries.

How to Set Up the Exercise/Instructions: Divide the class into groups of several students. One or more groups should analyze each of the four teams in Table 12-3's first column. Each student group should analyze the compensation package for its Pearson team, and answer these questions:

12-12. In what ways might the current compensation method contribute to the customer service problems?

12-13. What recommendations would you make to improve the compensation system in a way that would likely improve customer satisfaction?

TABLE 12-3 Pearson Urgent Care Teams and Pay

Pearson Urgent Care Team	Main Responsibility of Team	Main Current Compensation Method
1. Front desk	Greet patients, process health forms.	Hourly wage.
2. Nurses	Complete patients' medical history.	Annual salary.
3. Doctors	Diagnose patients, provide prescriptions.	Annual salary.
4. X-ray technicians	Take prescribed x-rays.	Hourly wage.

Application Case

The HubSpot.com Sales Incentive Plan

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Two graduates of MIT's Sloan School of Management founded HubSpot.com about 15 years ago.[129] HubSpot provides special customer relationship management (and other) software and systems. These aim to help clients create tailored online content that attracts potential customers to their websites, something known as "inbound" marketing.[130] The software then helps clients manage those leads.

When the founders started HubSpot, their sales challenge was straightforward. At that point, the company only had about 100 customers, so they had to acquire as many customers as they could, as quickly as possible. Therefore, they focused their first sales compensation plan on what that plan's architect refers to as "hunting" for new customers. That first plan gave HubSpot salespeople a base salary, plus $2 dollars up front for every $1 of monthly recurring revenue they brought in from clients. Knowing that some clients might well leave, the sales compensation plan included a four-month claw back clause. In other words, if a client left for any reason within the first four months, HubSpot took back that entire commission from the salesperson. It was a straightforward sales compensation plan, and in less than six months HubSpot zoomed from 100 to 1000 customers, and its revenues jumped from $300,000 to $3 million. So far so good.

However, a problem soon became apparent. HubSpot had a big client retention problem. Way too many clients were dropping the service (mostly after four months). HubSpot's usual procedure was to assign each new client to a postsale consultant. That consultant was responsible for setting up the new client's service, and training its staff in how to use HubSpot software and services. Management first assumed that some postsale consultants were doing something to turn their clients off, and that that accounted for the client churn. But after analyzing client retention rates, it was apparent that the postsale consultants were not the problem: client churn for all postsale consultants was about the same.

Management therefore turned to analyzing client churn among salespeople, and there they found the problem. Some salespeople had more than 10 times the client churn than others! For some reason, some salespeople's clients remained long-term customers, while others left in droves. Some salespeople were doing a better job than others, in terms of the types of customers they focused on and what they told their clients HubSpot could accomplish for them.

Management believed that modifying the sales compensation plan was the way to solve the problem. The question was, what exactly should the new sales compensation plan look like?

Questions

12-14. How exactly would you change the HubSpot sales compensation plan to solve this client retention problem? Please be specific about what your new plan would consist of.

12-15. Management defined the client churn problem as a sales problem, to be solved with a modified sales compensation plan. What else could have caused the client churn problem, and how would you have solved that?

Continuing Case

Carter Cleaning Company

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The Incentive Plan

The question of whether to pay Carter Cleaning Center employees an hourly wage or an incentive of some kind has always intrigued Jack Carter.

His basic policy has been to pay employees an hourly wage, except that his managers do receive an end-of-year bonus depending, as Jack puts it, "on whether their stores do well or not that year."

However, he is considering using an incentive plan in one store. Jack knows that a presser should press about 25 "tops" (jackets, dresses, blouses) per hour. Most of his pressers do not attain this standard, though. In one instance, a presser named Walt was paid $12 per hour, and Jack noticed that regardless of the amount of work he had to do, Walt always ended up going home at about 3:00 P.M., so he earned about $480 at the end of the week. If it was a holiday week, for instance, and there were a lot of clothes to press, he might average 22 to 23 tops per hour (someone else did pants) and so he'd earn perhaps $470 and still finish each day in time to leave by 3:00 P.M. so he could pick up his children at school. But when things were very slow in the store, his productivity would drop to perhaps 12 to 15 pieces an hour, so that at the end of the week he'd end up earning perhaps $480, and in fact not go home much earlier than he did when it was busy.

Jack spoke with Walt several times, and while Walt always promised to try to do better, it gradually became apparent to Jack that Walt was simply going to earn his $480 per week no matter what. Though Walt never told him so directly, it dawned on Jack that Walt had a family to support and was not about to earn less than his "target" wage, regardless of how busy or slow the store was. The problem was that the longer Walt kept pressing each day, the longer the steam boilers and compressors had to be kept on to power his machines, and the fuel charges alone ran close to $8 per hour. Jack clearly needed some way short of firing Walt to solve the problem, because the fuel bills were eating up his profits.

His solution was to tell Walt that, instead of an hourly $12 wage, he would henceforth pay him $0.50 per item pressed. That way, said Jack to himself, if Walt presses 25 items per hour at $0.50 he will in effect get a small raise. He'll get more items pressed per hour and will therefore be able to shut the machines down earlier.

On the whole, the experiment worked well. Walt generally presses 25 to 35 pieces per hour now. He gets to leave earlier and, with the small increase in pay, he almost always earns his target wage. Two problems have arisen, though. The quality of Walt's work has dipped a bit, plus his manager has to spend a minute or two each hour counting the number of pieces Walt pressed that hour. Otherwise, Jack is fairly pleased with the results of his incentive plan, and he's wondering whether to extend it to other employees and other stores.

Questions

12-16. Should this plan be extended to pressers in the other stores?

12-17. Should other employees (cleaner/spotters, counter people) be put on a similar plan? Why or why not? If so, how, exactly?

12-18. Is there another incentive plan you think would work better for the pressers? Describe it.

12-19. A store manager's job is to keep total wages to no more than 30% of sales and to maintain the fuel bill and the supply bill at about 9% of sales each. Managers can also directly affect sales by ensuring courteous customer service and by ensuring that the work is done properly. What suggestions would you make to Jennifer and her father for an incentive plan for store managers or front-desk clerks?

Translating Strategy into HR Policies and Practices Case*,§

** The overall strategy map on the inside back cover of this text outlines the relationships involved.*

Improving Performance at the Hotel Paris

The New Incentive Plan

The Hotel Paris's competitive strategy is "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy by eliciting the required employee behaviors and competencies.

One of Lisa Cruz's biggest pay-related concerns is that the Hotel Paris compensation plan does not link pay to performance in any effective way. Because salaries were historically barely competitive, supervisors tended to award merit raises across the board. So, employees who performed well got only about the same raises as did those who performed poorly. Similarly, there was no bonus or incentive plan of any kind aimed at linking employee performance to strategically relevant employee capabilities and behaviors such as greeting guests in a friendly manner or providing expeditious check-ins and check-outs. The bottom line for Lisa and the CFO was that the company's financial rewards system—potentially, the single-biggest tool they had for channeling employee performance toward accomplishing the Hotel Paris's goals—was totally inadequate. She and her team thus turned to the job of deciding what sort of incentive-based reward systems to install.

Based on their analysis, Lisa Cruz and the CFO concluded that, by any metric, their company's incentive plan had to be changed. The percentage of the workforce whose merit increase or incentive pay was tied to performance was effectively zero, because managers awarded merit pay across the board. No more than 5% of the workforce (just the managers) was eligible for incentive pay. And, the percentage difference in incentive pay between a low-performing and a high-performing employee was less than 2%. Lisa knew from industry studies that in top firms, over 80% of the workforce had merit pay or incentive pay tied to performance. She also knew that in high-performing firms, there was at least a 5% or 6% difference in incentive pay between a low-performing and a high-performing employee. The CFO authorized Lisa to design a new strategy-oriented incentive plan for the Hotel Paris's employees. Their overall aim was to incentivize the pay plans of just about all the company's employees.

Lisa and the company's CFO laid out three measurable criteria that the new incentive plan had to meet. First, at least 90% (and preferably all) of the Hotel Paris's employees must be eligible for a merit increase or incentive pay that is tied to performance. Second, there must be at least a 10% difference in incentive pay between a low-performing and high-performing employee. Third, the new incentive plan had to include specific bonuses and evaluative mechanisms that linked employee behaviors in each job category with strategically relevant employee capabilities and

behaviors. For example, front-desk clerks were to be rewarded in part based on the friendliness and speed of their check-ins and check-outs, and the housecleaning crew was to be evaluated and rewarded in part based on the percentage of room cleaning infractions.

With these criteria in mind, Lisa and her team turned to designing the new merit and incentive pay plan. They created a larger merit pay pool, and instructed supervisors that employees scoring in the lower 10% of performance were to receive no merit pay, while the difference in merit pay between the top category and medium category employees was to be 10%. They contracted with an online employee recognition firm and instituted a new "Hotel Paris instantaneous thank-you award program." Under this program, any guest or any supervisor could recommend any hotel employee for an instantaneous recognition award; if approved by the department manager, the employee could choose the recognition award by going to the company's website. The incentive structure for all the company's managers, including hotel managers, assistant managers, and departmental managers, now ties at least 10% of each manager's annual pay to the degree to which his or her hotel achieves its strategic aims. The plan measures this in terms of ratings on the guest satisfaction index, average length of guest stay, and frequency of guest returns. Ratings on all these metrics soon began to rise.

Questions

12-20. Discuss what you think of the measurable criteria that Lisa and the CFO set for their new incentive plan.

12-21. Given what you know about the Hotel Paris's strategic goals, list three or four specific behaviors you would incentivize for each of the following groups of employees: front-desk clerks, hotel managers, valets, housekeepers.

12-22. Based on what you learned in this chapter of Dessler, *Human Resource Management*, lay out a complete incentive plan (including long- and short-term incentives) for the Hotel Paris's hotel managers.

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Writing Assignments

12-23. When and why would you pay a salesperson based solely on commission? Based on a combined salary and commission?

12-24. Explain the role recognition and other nonmaterial incentives play in an effective incentive plan.

Key Terms

financial incentives, 380
productivity, 380
fair day's work, 380
scientific management movement, 380
pay-for-performance, 380
variable pay, 380
intrinsic motivation, 381
expectancy, 382
instrumentality, 382
valence, 382
behavior modification, 382
piecework, 383
straight piecework, 383
standard hour plan, 383
merit pay (merit raise), 384
annual bonus, 391
stock option, 393
golden parachute, 395
team (or group) incentive plan, 395
organizationwide incentive plan, 397
profit-sharing plan, 397
Scanlon plan, 397
gainsharing plan, 398
earnings-at-risk pay plan, 398
employee stock ownership plan (ESOP), 398

Endnotes

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13 Benefits and Services

WHERE ARE WE NOW . . .

Chapters 11 and 12 addressed pay and incentives. The main purpose of this chapter is to explain the third major pay component: employee benefits. The main topics we discuss are **Pay for Time Not Worked Benefits; Insurance Benefits; Retirement Benefits; Personal Services and Family-Friendly Benefits; Flexible Benefits Programs;** and **Employee Engagement Guide for Managers**. This chapter completes our discussion of employee compensation.

The next chapter starts a new part of this book, and focuses on managing employee relations.

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

13-1 **Name and define** each of the main pay for time not worked benefits.

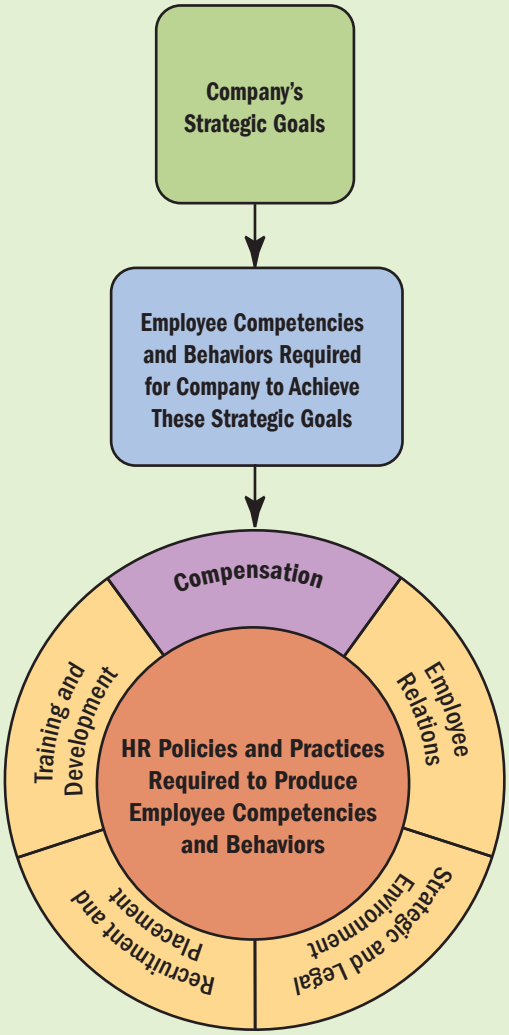
13-2 **Describe** each of the main insurance benefits.

13-3 **Discuss** the main retirement benefits.

13-4 **Outline** the main employees' services benefits.

13-5 **Explain** the main flexible benefit programs.

13-6 **Explain** how to use benefits to improve engagement, productivity, and performance.



About 35 years ago, Gary Erickson was biking through California and got an idea—to create healthier health bars than those then available.[1] That was the beginning of Clif Bar, a company Erickson started as a small bakery and then grew into one with hundreds of employees selling healthy foods and drinks. He wanted an employee benefits plan for his employees that highlighted Clif Bar's healthy focus; we'll see what he did.

Introduction: The Benefits Picture Today

benefits
Indirect financial and nonfinancial payments employees receive for continuing their employment with the company.

"What are your benefits?" is the first thing many applicants ask. **Benefits**—indirect financial and nonfinancial payments employees receive for their employment with the company and which employers use to attract, recognize, and retain workers—are an important part of just about everyone's compensation.[2] They include things like health and life insurance, pensions, paid time off, hybrid work, and child care. Employee benefits account for about 31% of total compensation.[3] Figure 13-1 summarizes the breakdown of benefits as a percentage of compensation.

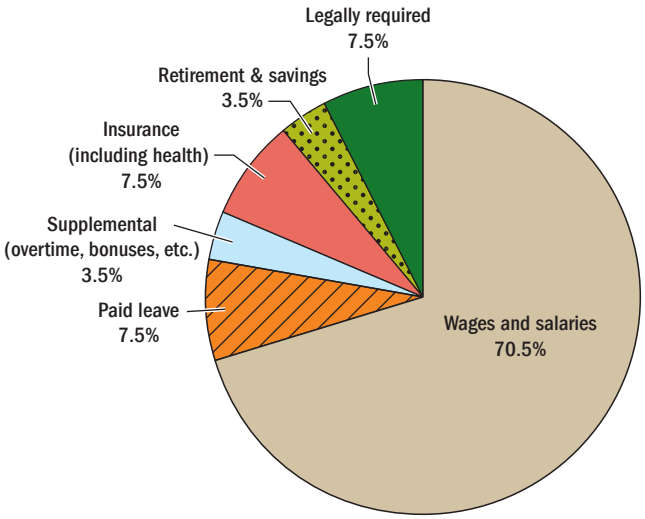


FIGURE 13-1 Wages and various benefits as a percentage of compensation (Private Industry), December 2021

Source: Based on Employer Costs for Employee Compensation-December 2021. https://www.bls.gov/news.release/pdf/ecec.pdf, accessed April 4, 2022.

In surveys, benefits that people said they wanted most were health, dental, and vision benefits (88%), more flexible hours (88%), more vacation time (80%), and more work from home options (80%).[4] During the pandemic, paid time off, flexible/remote work, and paid family leave became more important.[5]

With retaining employees often challenging, employers are improving benefits. For example, KPMG recently increased contributions to employees' 401(k) plans, and reduced health care premiums while adding services.[6] Other trends include increased benefits personalization; student loan repayments; increasing reluctance to shift health plan costs to employees; and expanded mental health benefits.[7]

Policy Issues

Employers should design benefits packages carefully, and there are many policy decisions to make. These include what benefits to offer, who receives coverage, whether to include retirees in the plan, whether to deny benefits to employees during initial "probationary" periods, how to finance benefits, cost-containment procedures, and how to communicate benefits options to employees.[8]

Legal issues loom large. Federal and state laws *mandate* some benefits (such as Social Security), while other benefits are *voluntary* (at the employer's discretion); see Table 13-1. However, we'll see that federal law still affects even voluntary/discretionary benefits such as vacation leave. And employers must adhere to the laws of the states in which they do business. For example, California requires most state contractors to provide domestic partner benefits for employees.

There are many benefits and ways to classify them. We will classify them as (1) pay for time not worked (such as vacations), (2) insurance benefits, (3) retirement benefits, (4) personal services benefits, and (5) flexible benefits. We will start our discussion with pay for time not worked.

TABLE 13-1 Some Required and Discretionary Benefits

Benefits Required by Federal or Most State Laws	Benefits Discretionary on Part of Employer*
Social Security	Disability, health, and life insurance
Unemployment insurance	Pensions
Workers' compensation	Paid time off for vacations, holidays, sick leave, personal leave, jury duty, etc.
Leaves under Family and Medical Leave Act	Employee assistance and programs; child care, elder care, flexible work schedules, etc.

**Note:* Although not required under federal law, all these benefits are regulated in some way by federal law, as explained in this chapter.

HR in Action at the Hotel Paris As they reviewed the benefits figures, Lisa Cruz and the CFO became increasingly concerned. They computed several benefits-related metrics for their firm, including *benefits costs as a percentage of payroll* and *sick days per full-time equivalent employee per year*. The results were not what they should have been. They had to change their benefits plan. The case at the end of this chapter explains what they did.

LEARNING OBJECTIVE 13-1

Name and define each of the main pay for time not worked benefits.

Pay for Time Not Worked

Pay for time not worked is very costly, because of how much time off most employees receive. Common time-off-with-pay benefits include holidays, vacations, jury duty, funeral leave, military duty, personal days, sick leave, sabbatical leave, maternity leave, and unemployment insurance payments for laid-off or terminated employees. **Supplemental pay** refers most broadly to all pay one receives beyond wages or salary, although some use the term to refer to all or most benefits for time not worked, such as unemployment insurance, vacation and holiday pay, and sick pay.[9]

supplemental pay benefits
Most broadly all pay one receives beyond wages or salary, although sometimes used to refer to benefits for time not worked such as unemployment insurance, vacation and holiday pay, and sick pay.

StratfordProductions/Shutterstock

Unemployment insurance/compensation laws provide short-term benefits to people who lose their jobs through no fault of their own.

Unemployment Insurance

unemployment insurance (or compensation)
Provides benefits if a person is unable to work through some fault other than his or her own.

All states have their own **unemployment insurance (or compensation)** laws. These provide benefits to eligible workers who become unemployed through no fault of their own. The benefits derive from a tax on employers that one calculates based on a percent of taxable payroll in most states. An employer's unemployment tax rate reflects its rate of employee terminations. Unemployment tax rates were already rising, and the pandemic accentuated the rise. For example, Maryland's unemployment insurance tax rate ranged from 0.6% to 9.0% per employee a few years ago, but then rose to 2.20% to 13.50% in one recent year.[10] All states follow federal unemployment insurance guidelines.

Not everyone dismissed by an employer is entitled to unemployment benefits—only those released through no fault of their own. Thus, strictly speaking, a worker fired for chronic lateness can't legitimately claim benefits. But many managers are lackadaisical in protecting their employers. Employers therefore spend thousands of dollars on unemployment taxes unnecessarily.

The main rule is to keep a list of written warnings to demonstrate that poor performance caused the dismissal. The checklist in Table 13-2 can help. (Those fired during their initial "90-day probation" *are* eligible for unemployment, so follow that checklist for them, too.)

TABLE 13-2 An Unemployment Insurance Cost-Control Checklist

Do You:
- ✓ Keep documented history of lateness, absence, and warning notices
- ✓ Warn chronically late employees before discharging them
- ✓ Have a rule that 3 days' absence without calling in is reason for automatic discharge
- ✓ Request doctor's note on return to work after absence
- ✓ Make written approval for personal leave mandatory
- ✓ Stipulate date for return to work from leave
- ✓ Obtain a signed resignation statement
- ✓ Mail job abandonment letter if employee fails to return on time
- ✓ Document all instances of poor performance
- ✓ Require supervisors to document the steps taken to remedy the situation
- ✓ Document employee's refusal of advice and direction
- ✓ Require all employees to sign a statement acknowledging acceptance of firm's policies and rules
- ✓ File the protest against a former employee's unemployment claim on time (usually within 10 days)
- ✓ Use proper terminology on claim form, and attach documented evidence regarding separation
- ✓ Attend hearings, and appeal unwarranted claims
- ✓ Check every claim against the individual's personnel file
- ✓ Routinely conduct exit interviews to produce information for protesting unemployment claims

Source: Copyright Gary Dessler, PhD.

Vacations and Holidays

About 79% of full-time workers and 40% of part-timers get paid holidays, an average of eight paid holidays off.[11] Common paid holidays include New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day.[12] On average, American workers get about 9 days of vacation leave after 1 year's employment, 14 days after 5 years, and 17 after 10 years.[13]

Firms should address several holiday- and vacation-related policy issues. These include how many vacation days employees get, and which days (if any) are paid holidays. Other vacation policy decisions include: Are employees paid for accrued vacation time if they quit before taking their vacations? Will you pay employees for a holiday if they don't come to work the day before and the day after the holiday? And, should we pay some premium—such as time and a half—when employees must work on holidays?

In practice, vacation policies range from highly flexible, to traditional, to restrictive. Some employers have "unlimited vacation policies." For example, BlackRock was the first big financial firm to introduce such a plan.[14] One motive for such plans is that with many workers answering e-mails 24/7, going home doesn't mean leaving work, so they deserve flexible vacations.[15] Such plans also aid recruiting. Of course, unlimited vacation plans aren't really unlimited. In practice employees usually must plan their schedules with their supervisors. When one company switched to such a plan, the average vacation days rose from 14 to 16.6, year-over-year. As a rule, very few employees actually take more time off.[16]

Other employers take a traditional approach: employees are eligible for a certain number of annual vacation days, and place vacation requests with their supervisors and perhaps the HR department. For instance, all IBM employees get at least 3 weeks, and after 10 years get 4 weeks),[17] Wage surveys provide guidance on forming typical vacation policies.

Some employers, concerned with excessive absence, emphasize restrictive, centralized absence oversight (called "integrated absence management"). This starts with using technology to track absence trends, and collecting data. For instance, how many people are on leave; how many days of work is the employer losing; how much is the employer spending to replace absent workers; and what units have the attendance problems? Then, they put in place procedures such as rigorous absenteeism claims reviews. [18] These employers then closely monitor all aspects of their employees' leaves and absences.

Know Your Employment Law: Vacations

Although federal law doesn't require vacation benefits, the employer must still formulate its vacation policy with care. As an example, with many employers' vacation policies, vacation pay accrues, say, on a biweekly basis. This means that these employers obligate themselves to pay new employees pro rata vacation pay if they leave the firm during their first year. But if the employer's vacation policy requires that a new employee pass their first employment anniversary *before becoming entitled* to a vacation, the employee gets no vacation pay if the person leaves during that first year.

Another question is whether the employer can cancel an employee's scheduled vacation, for instance, due to a rush of orders. Here it's important that it formulate its vacation policy so it's clear that the employer reserves the right to require vacation cancellation and rescheduling if production so demands.

Sick Leave

sick leave
Provides pay to an employee when the person is out of work because of illness.

Sick leave provides pay to employees when they're out of work due to illness. Most policies grant full pay for a specified number of sick days—perhaps 12 per year, usually accumulating at the rate of, say, 1 day per month of service. Several states and cities have mandatory paid leave sick laws.[19]

The problem with sick days is that many employees use them whether they're sick or not. In one survey, personal illnesses accounted for about 45% of unscheduled sick leave absences. Family issues (27%), personal needs (13%), and "entitlement" (9%) were other reasons cited.[20] Absenteeism costs U.S. employers about 20% of their total payrolls.[21]

COST-REDUCTION TACTICS Employers use various tactics to reduce excessive sick leave absence. About 87% use *pooled paid leave plans* (or "*banks*"). These lump together sick leave, vacation, and personal days into a single leave pool. In one SHRM survey, the average days awarded depended on the employee's time with the employer, and ranged from 13 to 26.[22] (Special absences like serious short-term illnesses and bereavement leave are usually handled separately.) Most firms don't include federal holidays in their paid time off "banks."[23]

Another tactic is to repurchase unused sick leave at the end of the year, by paying employees for unused sick days. The problem is that legitimately sick employees may come to work. Others hold monthly lotteries in which only employees with perfect

monthly attendance are eligible for a cash prize. At Marriott, employees could trade the value of some sick days for other benefits. Others retain experts to manage their absence and leave programs. [24] Others (as noted previously) aggressively investigate all absences, calling absent employees at home. The accompanying Profit Center feature shows how one employer cut costs.

HR AS A PROFIT CENTER

Controlling Sick Leave

Sick leave often gets out of control because employers don't measure it. In one early survey, only about half of employers formally tracked sick days for their exempt employees.[25] Three-fourths couldn't provide an estimate of what sick pay was costing them. Therefore, the employer should first have a system for monitoring sick leaves and for measuring their financial impact.[26]

As an example, when a new director took over the United Kingdom's Driver and Vehicle Licensing Agency, steps were obviously needed to address its absence rate.[27] The rate had peaked at 14 days out per employee, at a cost of about $20 million per year (then £10.3 million).

The new director organized a human resource absence initiative.[28] The agency set a goal of reducing absences by 30% within five years. Agency directors received absence-reduction goals, and their progress was tracked. The agency introduced new policies on special leave, rehabilitation support, and monitoring absentees. They made it easier for employees to swap work shifts, and introduced a guaranteed leave day policy.

Within five years, the sickness absence rate was down to 7.5 days per employee and productivity was up, for multiyear savings of about $48 million dollars (£24.4 million). ■

Know Your Employment Law: The Family and Medical Leave Act and Other Laws

The Family and Medical Leave Act of 1993 (FMLA)[29] stipulates that:[30]

1. Private employers of 50 or more employees must provide eligible employees (women or men) up to 12 weeks of unpaid leave for their own serious illness, the birth or adoption of a child, or the care of a seriously ill child, spouse, or parent.
2. Employers may require employees to take their paid sick leave or annual leave as part of the 12-week leave provided in the law.
3. Employees taking leave are entitled to receive health benefits while they are on unpaid leave, under the same terms and conditions as when they were on the job.
4. Employers must guarantee most employees the right to return to their previous or equivalent position with no loss of benefits at the end of the leave.

FMLA GUIDELINES Managers who want to avoid granting nonrequired FMLA leaves must understand the law. For example, to be eligible for leave under the FMLA, the employee must have worked for the employer for at least a total of 12 months and have worked for 1,250 or more hours in the past 12 consecutive months.[31] If these conditions don't apply, no leave is required.

Employers should have procedures for all leaves of absence (including those under the FMLA). In particular:

- Give no employee a leave until the reason for the leave is clear.
- Confirm the legitimacy of any FMLA request. Employers can request sufficient medical facts and symptoms to confirm the eligible condition, prescriptions, appointments, and the treatment regimen.[32]
- Use a standard form to record both the employee's expected return date and the fact that, without an authorized extension, the firm may terminate his or her employment (see Figure 13-2).

FIGURE 13-2 Online Request for Leave Form

Source: From Request for Leave or Approved Absence, https://www.opm.gov/forms/pdf_fill/opm71.pdf , accessed december 14, 2022.

Request for Leave or Approved Absence

1. **Name** *(Last, first, middle)*	2. **Employee or Social Security Number (Enter only the last 4 digits of the Social Security Number (SSN))**
3. **Organization**	

4. **Type of Leave/Absence** *(Check appropriate box(es) below)*	Date From	Date To	Time From	Time To	Total Hours
☐ **Accrued Annual Leave**					
☐ **Restored Annual Leave**					
☐ **Advanced Annual Leave**					
☐ **Accrued Sick Leave**					
☐ **Advanced Sick Leave**					
Purpose: ☐ Illness/injury/incapacitation of requesting employee ☐ Medical/dental/optical examination of requesting employee ☐ Care of family member, including medical/dental/optical examination of family member, or bereavement ☐ Care of family member with a serious health condition ☐ Other					
☐ **Compensatory Time Off**					
☐ **Other Paid Absence** *(Specify in Remarks)*					
☐ **Leave Without Pay**					

5. **Family and Medical Leave**

If annual leave, sick leave, or leave without pay will be used under the Family and Medical Leave Act of 1993, please provide the following information:

☐ **I hereby invoke my entitlement to Family and Medical Leave for:**

- ☐ Birth/Adoption/Foster Care
- ☐ Serious health condition of spouse, son, daughter, or parent
- ☐ Serious health condition of self

Contact your supervisor and/or your personnel office to obtain additional information about your entitlements and responsibilities under the Family and Medical Leave Act. Medical certification of a serious health condition may be required by your agency.

6. **Remarks:**

7. **Certification:** I hereby request leave/approved absence from duty as indicated above and certify that such leave/absence is requested for the purpose(s) indicated. I understand that I must comply with my employing agency's procedures for requesting leave/approved absence (and provide additional documentation, including medical certification, if required) and that falsification on this form may be grounds for disciplinary action, including removal.

7a. **Employee Signature**	7b. **Date**
8a. **Official Action on Request:** ☐ **Approved** ☐ **Disapproved**	*(If disapproved, give reason. If annual leave, initiate action to reschedule.)*
8b. **Reason for Disapproval:**	
8c. **Supervisor Signature**	8d. **Date**

PRIVACY ACT STATEMENT

Section 6311 of Title 5, United States Code, authorizes collection of this information. The primary use of this information is by management and your payroll office to approve and record your use of leave. Additional disclosures of the information may be: to the Department of Labor when processing a claim for compensation regarding a job connected injury or illness; to a State unemployment compensation office regarding a claim; to Federal Life Insurance or Health Benefits carriers regarding a claim; to a Federal, State, or local law enforcement agency when your agency becomes aware of a violation or possible violation of civil or criminal law; to a Federal agency when conducting an investigation for employment or security reasons; to the Office of Personnel Management or the General Accounting Office when the information is required for evaluation of leave administration; or the General Services Administration in connection with its responsibilities for records management.

Public Law 104-134 (April 26, 1996) requires that any person doing business with the Federal Government furnish a social security number or tax identification number. This is an amendment to Title 31, Section 7701. Furnishing the social security number, as well as other data, is voluntary, but failure to do so may delay or prevent action on the application. If your agency uses the information furnished on this form for purposes other than those indicated above, it may provide you with an additional statement reflecting those purposes.

Office of Personnel Management
5 CFR 630

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OPM Form 71
Rev. September 2009
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The FMLA mandates only unpaid leave. Therefore, several states implemented paid family leave laws.[33] There has been discussion of the need for federal parental paid leave legislation.[34]

Under the Americans with Disabilities Act (ADA), a qualified employee with a disability may be eligible for a leave if it's necessary to accommodate the employee.[35] Under the Pregnancy Discrimination Act, employers must treat women applying for pregnancy leave as they would any other employee requesting a leave under the employer's sick leave policies.

Severance Pay

severance pay
A one-time payment some employers provide when terminating an employee.

Many employers provide **severance pay**, a one-time separation payment when terminating an employee. Most managers expect employees to give them 1 or 2 weeks' notice if they plan to quit, so severance pay seems appropriate when dismissing an employee. Reducing litigation from disgruntled former employees is another reason.[36] Severance pay also helps reassure employees that they'll receive some financial

help if let go, too. If the employer obligates itself (for instance, in its employee handbook) to pay severance, then its "voluntary" plan must comply with additional ERISA rules.[37]

The reason for the dismissal usually affects the severance pay. About 95% of employees dismissed due to downsizings get severance pay, but only about a third of employers offer severance when dismissing for poor performance. It is uncommon to pay when employees quit.

The maximum weeks of severance pay tends to vary by position. In one survey about 45% of officers and senior executives got 52 weeks or more, 42% of professionals got 14–26 weeks, and 39% of administrative staff got 14–26 weeks. Few lower-level employees got no severance, but 13%–19% of officers and senior executives got no severance.[38]

GUIDELINES In any event, keep several things in mind when designing severance plans:

- List the situations for which the firm will pay severance, such as layoffs resulting from reorganizations.
- Require signing of a knowing and voluntary waiver/general release prior to remittance of any severance pay, absolving the employer from employment-related liability.
- Reserve the right to terminate or alter the severance policy.
- Make it clear that any continuing severance payments continue until only the stated deadline or until the employee gets a new job, whichever occurs first.
- Remember that, as with all personnel actions, employers must make severance payments, if any, equitably.[39]

HR Practices around the Globe: Severance Pay in France

French labor law is complex and, aimed mostly at protecting employees' rights.[40]

For example, when one employer refused two employees' requests to be fired, they stopped coming to work. He dismissed them, after which a labor tribunal held they'd been wrongfully terminated. The two former employees ended up getting about $60,000 each. Proceedings in such tribunals can go on for years.

Understandably, many employers take the easy way out and don't hire employees. Instead, they outsource work or use temps. French President Macron wanted to put a ceiling on the tribunal awards. He hoped that lifting that threat will make employers more willing to hire. But unions are resisting capping awards. In any case, employers from other countries should understand French labor law before opening facilities there.

supplemental unemployment benefits
Provide for a "guaranteed annual income" in certain industries where employers must shut down to change machinery or due to reduced work. These benefits are paid by the company and supplement unemployment benefits.

Supplemental Unemployment Benefits

In some industries such as automaking, shutdowns to reduce inventories or change machines are common. **Supplemental unemployment benefits** are cash payments that supplement the employee's unemployment compensation, to help the person maintain his or her standard of living while out of work.

LEARNING OBJECTIVE 13-2
Describe each of the main insurance benefits.

Insurance Benefits

Most employers also provide various required or voluntary insurance benefits, such as workers' compensation and health insurance.

Workers' Compensation

workers' compensation
Provides income and medical benefits to work-related accident victims or their dependents regardless of fault.

Workers' compensation laws aim to provide sure, prompt income and medical benefits to work-related accident victims or their dependents, regardless of fault. Every state has its own workers' compensation law and commission, and some run their own insurance programs. However, most require employers to carry workers' compensation insurance with private, state-approved insurance companies. Neither the state nor the federal government contributes any funds for workers' compensation.

HOW BENEFITS ARE DETERMINED Workers' compensation can be monetary or medical. In the event of a worker's death or disablement, the person's dependents receive a cash benefit based on prior earnings—usually one-half to two-thirds the worker's average weekly wage, per week of employment. Most states have a time limit—such as 500 weeks—for which benefits can be paid. If the injury causes a specific loss (such as an arm), the employee may receive additional benefits based on a statutory list of losses, even though the person may return to work. In addition to these cash benefits, employers must furnish medical, surgical, and hospital services as required for the employee.

For workers' compensation to cover an injury or work-related illness, one must only prove that it arose while the worker was on the job. It doesn't matter that the worker may have been at fault.[41] Suppose you instruct employees to wear safety goggles at their machines. One worker doesn't and has an eye injury on the job. The company must still provide workers' compensation benefits.

Americans with Disabilities Act provisions generally prohibit employers from inquiring about an applicant's workers' compensation history. Furthermore, failing to let an employee who was on injury-related workers' compensation return to work, or not accommodating him or her, could trigger ADA lawsuits.

CONTROLLING WORKERS' COMPENSATION COSTS It is important to control workers' compensation claims (and therefore costs). The employer's insurance company usually pays the claim, but premiums may rise with more claims.

There are ways to reduce workers' compensation claims. First, new employees are most at risk: inexperienced (less than one year) workers have two to four times the loss costs, for instance.[42] Competent selection—background checks, testing, and drug testing—plus training are therefore crucial.[43] Also reduce accident-causing conditions, such as slippery floors or sloppy work habits. Check and comply with safety standards laws. Furthermore, some workers' compensation claims are not legitimate. Red flags include vague accident details, minor accidents resulting in major injuries, lack of witnesses, injuries occurring late Friday, and a prior history of suspicious claims involving subjective injuries.[44]

Case management is popular for cost control. It is "the treatment of injured workers on a case-by-case basis by an assigned manager, usually a [specially trained] registered nurse, who coordinates with the physician and health plan to determine which care settings are the most effective for quality care and cost."[45]

Moving aggressively to support the injured employee and to get him or her back to work is important too. The involvement of an attorney and the duration of the claim both influence the worker's claim cost. Many firms offer programs such as physical therapy, to help reintegrate claim recipients. One study found integrity tests may be useful. [46]

Hospitalization, Health, and Disability Insurance

Health insurance looms large in many people's choice of employer, because it's so expensive. Hospitalization, health, and disability insurance helps protect employees against hospitalization costs and from the income loss arising from off-the-job accidents or illness. Many employers purchase insurance from life insurance companies, casualty insurance companies, or Blue Cross (for hospital expenses) and Blue Shield (for physician expenses) organizations. Others contract with health maintenance organizations or preferred provider organizations. The employer and employee usually both contribute to the plan. And of course employers are dealing with the Patient Protection and Affordable Care Act, as we will see.[47]

Table 13-3 illustrates the prevalence of some health-related benefits.

COVERAGE Most employer health plans provide at least basic hospitalization and surgical and medical insurance for all eligible employees at group rates. Insurance is generally available to all employees—including new nonprobationary ones—regardless of health or physical condition. Most basic plans pay for hospital room and board, surgery charges, and medical expenses (such as doctors' visits to the hospital).

TABLE 13-3 Percentage of Employers Offering Some Popular Health Benefits

Some Health Care and Welfare Benefits	
Dental insurance	97%
Prescription drug coverage	95%
Mental health coverage	83%
Mail-order prescription program	78%
Vision insurance	91%
Accidental death and dismemberment insurance (AD&D)	83%
Preferred provider organization (PPO)	85%
Chiropractic coverage	75%
Long-term disability insurance	71%
Employee assistance program (EAP)	79%
Short-term disability insurance	61%
Medical flexible spending accounts.	68%

Source: 2019 Employee Benefits, SHRM, https://shrm.org/hr-today/trends-and-forecasting/research-and-surveys/Documents/SHRM%20Employee%20Benefits%202019%20Healthcare%20and%20Health%20Services.pdf, accessed April 8, 2022.

Some also provide "major medical" coverage to meet the medical expenses resulting from serious illnesses.

Most employers' health plans also cover health-related expenses like doctors' visits, eye care, and dental services. Other plans pay for general and diagnostic visits to the doctor's office, vision care, hearing aids, and prescription drugs. *Disability insurance* provides income protection for salary loss due to illness or accident, and may continue until age 65 or beyond. Disability benefits usually range from 50% to 75% of the employee's base pay.

Under the Patient Protection and Affordable Care Act, employers with at least 50 full-time-equivalent employees must offer minimum levels of affordable healthcare coverage or pay a penalty.

health maintenance organization (HMO)
A prepaid healthcare system that generally provides routine round-the-clock medical services as well as preventive medicine in a clinic-type arrangement for employees, who pay a nominal fee in addition to the fixed annual fee the employer pays.

HMOS Many employers offer membership in a **health maintenance organization (HMO)**, a medical organization consisting of specialists (surgeons, psychiatrists, and so on), often operating out of a healthcare center. HMOs provide routine medical services to employees who pay a nominal fee. Employees often have "gatekeeper" doctors to approve appointments with specialist doctors. The HMO receives a fixed annual fee per employee from the employer (or employer and employee), regardless of whether it provides that person service.

PPOS Preferred provider organizations (PPOs) are a cross between HMOs and the traditional doctor–patient arrangement: They are "groups of health-care providers that contract with employers, insurance companies, or third-party payers to provide medical care services at a reduced fee."[48] Unlike HMOs, PPOs let employees select providers (such as doctors) from a relatively wide list, and see them in their offices, often without gatekeeper doctor approval. Providers agree to discounts and to certain controls, for example, on testing.[49]

MENTAL HEALTH BENEFITS According to the National Institute of Mental Health, almost one in five U.S. adults live with a mental illness (52.9 million recently).[50] People aged 18–30 are more likely to report major depressive episodes. [51]

Employee mental health costs are rising twice as fast as other health care expenses.[52] Reasons include widespread drug and alcohol problems, more states requiring employers to offer minimum mental health benefits, and the fact that mental health claims tend to trigger other healthcare claims. Many employers are therefore expanding their

mental health services, in response to the pressures of the pandemic.[53] The Mental Health Parity Act of 1996 (amended in 2008) sets minimum mental healthcare benefits; it also prohibits employer group health plans from adopting mental health benefits limitations without comparable limitations on medical and surgical benefits.[54]

Know Your Employment Law: Patient Protection and Affordable Care Act of 2010, and other laws

Under the Patient Protection and Affordable Care Act (the U.S. Department of Health and Human Services says it is also "sometimes known as ACA or 'Obamacare'"),[55] employers with at least 50 full-time-equivalent employees are to offer minimum levels of affordable healthcare coverage or pay a penalty of $167 per employee per month. To be eligible, an employee must work at least 30 hours per week or a total of 130 hours in a calendar month.[56] The bill was signed into law in 2010.[57] Employers with healthcare plans that cost more than the threshold the law set (for instance, $27,500 for family coverage) then had about eight years before they had to pay a 40% tax on the amount of coverage over $27,500. Health plans that provided dependent coverage had to expand eligibility up to age 26.[58]

Under the law, each state (or, when necessary, the federal government) may run *health insurance exchanges*. These are in effect marketplaces for buying and selling insurance. In part to discourage employers from dropping their healthcare plans and sending employees to the health exchanges, the law imposes those fines of $2,000 ($167 per month) per worker on any employer with more than 50 workers who doesn't offer a health insurance plan. Affordable Care Act healthcare exchanges cover less than 10% of the health insurance market; employers' programs cover almost half the U.S. population.[59]

All marketplace plans cover at least 10 essential health benefits. These include: ambulatory patient services; emergency services; hospitalization; pregnancy, maternity, and newborn care; mental health and substance use services; prescription drugs; rehabilitative services; laboratory services; preventive services; and pediatric services.[60]

Because employers had to pay a 40% surcharge on health insurance plans exceeding $27,500 for a family (or $10,200 for an individual), many employers moved to reduce their health-care benefits, for instance by increasing employee co-pays and deductibles.[61] To avoid penalties that could reach $2,000 per employee, some employers directed employees who qualify for Medicaid to enroll for it, instead of employer-supplied insurance.[62] Some employers at the time eliminated their health plans, or turned more full-time workers into part-timers.[63] Others reduced their coverage.[64]

COBRA

COBRA—the Consolidated Omnibus Budget Reconciliation Act—requires most private employers to continue to make health benefits available to separated employees and their families for a time, generally 18 months after separation.[65] The former employee must pay for the coverage.

Employers ignore COBRA's rules at their peril. The employer does not want separated employees to leave and be injured, and then claim they were never told they could have continued their insurance coverage. Therefore, when a new employee first becomes eligible for the company's insurance plan, the person *must* receive (and acknowledge receiving) an explanation of his or her COBRA rights. And all employees separated from the company should sign a form acknowledging that they received and understand those rights. (See Figure 13-3 for a checklist.)

Other Laws

Other federal laws are pertinent. For example, the *Employee Retirement Income Security Act of 1974* (ERISA) sets minimum standards for most voluntarily established pension and health plans in private industry.[66] *The Newborn Mother's Protection Act of 1996* prohibits employers' health plans from using incentives to encourage employees to leave the hospital after childbirth after less than the legislatively determined

FIGURE 13-3 Illustrative COBRA Compliance Checklist

Source: Adapted from: www.cobraplus.com/wp-content/themes/cobra-plus/images/constant/COBRAetup.pdf; COBRA Checklist, www.shrm.org/resourcesandtools/; COBRA record keeping checklist, BLR-Business and Legal Resources; and COBRA compliance checklist, http://brscobra.com/cobra-checklist, all accessed August 1, 2017; https://www.everythingbenefits.com/hubfs/COBRA_Admin_Best_Practices-Checklist.pdf?msclkid=7986b8b2b81111ecad8470a4edf7b9cc, accessed April 9, 2022. Copyright Gary Dessler, PhD.

Cobra to do list would include, for example:	✓ If Done
Complete COBRA services agreement with vendor.	☐
Complete COBRA census: who is covered, with their ages.	☐
Maintain records of those covered by group health plan.	☐
Notify all employees of their rights under COBRA.	☐
Document notification to qualified individuals if they are not eligible to continue coverage.	☐
Monitor COBRA election periods.	☐
Document all notifications (7 years).	☐
Receive signed COBRA election form.	☐
Maintain log of all inquiries received re COBRA.	☐
Track eligible individuals' COBRA payments.	☐
Notify insurers of cancellation of coverage.	☐
Notify qualified beneficiaries if they are not eligible for continued COBRA coverage.	☐
Mail COBRA qualifying event notice and election form to former employee.	☐
Maintain current addresses of those on COBRA.	☐
Maintain records of qualified COBRA beneficiaries.	☐
Terminate COBRA coverage.	☐
Recognize differences in qualifying event types (such as termination vs. dependent death).	☐

minimum stay. Employers who provide healthcare services must follow the privacy rules of the *Health Insurance Portability and Accountability Act of 1996 (HIPAA*).[67] Employers must provide the same healthcare benefits to employees over the age of 65 that they do to younger workers, even though those over 65 may be eligible for federal Medicare health insurance. Under the *Americans with Disabilities Act*, the health plan generally shouldn't make distinctions based on disability. Under the *Genetic Information Nondiscrimination Act of 2008* (GINA), even innocent actions can be problems. For example, if a health plan administrator writes down that a member's mother passed away from breast cancer, making the note public could conceivably violate the act.[68] States such as California have their own FMLAs.[69]

Trends in Employer Healthcare Cost Control

Premiums for group family healthcare coverage were about $22,220 recently, of which employers on average paid about 73%.[70]

That cost control is required is beyond doubt. One study, in the *Journal of the American Medical Association,* concluded that about a quarter of medical spending was unneeded.[71] A separate study concluded that of about three million medical treatments studied, almost half were unnecessary.

Cost control should start by auditing healthcare costs.[72] One survey several years ago found that while the *standard* for claims dollars paid in error was 1%; the *actual* percentage of claims dollars paid in error was 3.4%. Consultants who audit employers' healthcare payments estimate up to *8%* overpayments.[73]

Deductibles and co-pays are the low-hanging fruit, because they do encourage consumers to think about healthcare expenditures.[74] For example, 32% of those in non-deductible plans "Asked for a generic drug instead of a brand name drug," compared with 41% in high deductible plans.

OTHER COST-CONTROL APPROACHES Employers take other cost-control steps.[75] Realistically the employer will want to review its health care costs with one or more experts (such as the larger accounting firms and insurance companies) that can help the employer better manage its costs.[76] Some experts offer help with making what they call a "health care transformation" from traditional to "smart" health organizations. "Smart" here refers in part to using modern tools and technologies such as virtual health care, "interoperable patient records," remote monitoring, and artificial intelligence to improve health care delivery.[77]

Employers are also bypassing health insurers and contracting directly with health providers.[78] For example, GM contracted with Henry Ford Health Systems; it now provides healthcare to many salaried GM employees and their families.[79] Some employees with High Deductible Health Plans use tax-sheltered health savings accounts (HSAs) to pay health expenses such as deductibles, copayments, and coinsurance.[80] About 19% of employers surveyed had some form of healthcare plan *spousal exclusion policies*, such as excluding a spouse when similar coverage was available from the spouse's employer.[81] Some employers offer *defined contribution health insurance plans*. Like 401(k) plans, defined contribution health insurance plans tie each employee's healthcare benefits to what the employee and the employer contribute, rather than providing healthcare benefits that are defined in advance.[82]

Many employers move Medicare-eligible retirees from their company health insurance plans into private individual exchanges. That reduces their own administrative obligations while offering retirees more choice for less money.[83] The exchanges are run by companies that include Mercer, and Aon.

Other employers hire "patient advocates," such as nurses, who review employees' medications and (with the consultation of independent physicians) recommend reduced medication regimens.[84] The U.S. Labor Department proposed making it easier for small businesses to band together to offer *minimal health benefits plans.*[85] Some employers have *on-site medical centers*; here patient confidentiality rules, and state laws regarding medical waste disposal are just two issues to consider.[86] Employers require that insurers use *accountable care organizations* (ACOs). These are vendors (including doctors and hospitals) who come together to help improve health care (especially Medicare) costs and outcomes.[87] Amazon is considering establishing its own health clinics for Amazon employees. Furthermore, most employees underestimate what their employers are spending for employee health care. Therefore *make sure employees know the costs* of their medical benefits. For example, periodically send a statement to each employee listing the employer's costs for each health benefit.

WELLNESS PROGRAMS Because various illnesses are preventable, many employers offer wellness/preventive programs.[88] For example, in one 15-year period, the percentage of Johnson & Johnson employees who smoked cigarettes dropped by two-thirds, in part assumedly due to its various wellness programs. J&J managers estimate the company earns about $2.75 for every $1.00 it spends on wellness.[89]

There are a great many wellness programs employers can offer, ranging from low cost to high.[90] Very low cost examples include mapping nearby *walking or biking trails*, posting *motivational signs* in the workplace, and providing *safe bicycle racks*. More expensive programs include *clinical prevention* programs include things like mammograms and checkups. Walgreens provides *on-site healthcare services* and helps track personal *health goals*.[91] Insurer USAA offers options such as employees paying $300 a year to use company fitness centers (but getting 75% off if they use it three times per week,) mileage markers in company hallways, and weight loss and other health incentives. Some other wellness programs include obesity management, stress management, and smoking cessation.

Incentives can boost wellness program participation, but may backfire.[92] (Whirlpool gave nonsmoker discounts worth about $500 on healthcare premiums. It suspended 39 workers caught smoking outside the plant after claiming they were nonsmokers.) Some employers offer standing desks. The desks may boost wellness; however, a recent study concluded that six hours a day of standing burned only about 54 calories—about the same as in a piece of fruit.[93]

Wellness program results are mixed. J&J, as noted, had positive results, but in another study, programs didn't change behavior much.[94] Employees resist them for several reasons. In one study, *privacy* was the main concern. Others said they thought the program was too time-consuming, wouldn't be particularly useful, or that they already felt healthy.[95]

The key seems to be to motivate the employee to take steps to stay well. Two experts say this entails:

Leadership commitment and support For example, at Lincoln Industries, promoting health is embedded in the company's mission statement.[96]

Build a culture of health Good health emerges from a culture evidenced by elements such as health-promoting policies, healthy food offerings, staircases rather than elevators, and treadmills.

Employee involvement Wellness requires employee engagement—they have to want it. Employees should "own" the wellness program, and should have a big role in its creation and operation.

Spread the word For example, USAA continually communicates in multiple ways to employees that the wellness program is there to serve them.

The accompanying Profit Center feature shows how one employer cut costs.

HR AS A PROFIT CENTER

The Doctor Is on the Phone

With more than 12,000 employees in its health plan, Rent-A-Center was looking for a better way to get its employees the medical advice they required, while also reducing health plan costs. The company signed an agreement with Teladoc, Inc. Teladoc's doctors provide medical consultations over the phone. In the first 16 months the new telemedicine program was in effect, Rent-A-Center saved more than $770,000 in doctor and hospital visits and in employee productivity that would have been lost.

The program seems to be win–win. The Teladoc consultation is free to employees, compared to a $20 office co-payment, and the doctors are available 24 hours per day, usually within 30 minutes. If necessary, they call in antibiotics prescriptions. And for Rent-A-Center, there's that extra $770,000 in their bottom line.[97] ■

Long-Term Care

Long-term care insurance—for things like nursing assistance for former employees in their old age—is a key employee benefit.[98] The Health Insurance Portability and Accountability Act of 1996 lets employers and employees deduct long-term care insurance premiums from their income taxes, making this benefit more attractive.[99] Employers can also provide insurance benefits for related matters such as adult day care, assisted living, and custodial care.

Life Insurance

group life insurance
Provides lower rates for the employer or employee and includes all employees, including new employees, regardless of health or physical condition.

In addition to hospitalization and medical benefits, most employers provide **group life insurance** plans. Such plans generally offer lower rates than individual plans, and usually accept all employees regardless of health or physical condition.

In general, there are three key personnel policies to address: the benefits-paid schedule (the amount of life insurance is usually tied to the employee's annual earnings), supplemental benefits (continued life insurance coverage after retirement, for instance), and financing (the amount and percent the employee contributes).

Accidental death and dismemberment coverage provides a lump-sum benefit in addition to life insurance benefits when death is accidental. It also provides benefits in case of accidental loss of limbs or sight.

Benefits for Part-Time and Contingent Workers

About 28 million people work part-time (less than 35 hours a week).[100] More gig work, more phased retirements, and a desire to better balance work and family life help explain this. In any case, many firms provide holiday, sick leave, and vacation benefits to part-timers, and about 49% offer them some form of healthcare benefits.[101]

GIG WORKER BENEFITS Employers that want to offer gig workers benefits are sometimes reluctant to do so. The problem is providing gig workers with benefits, while maintaining their status as independent contractors not also entitled to things like payroll tax contributions.[102]

The head of one company, Handy (whose independent contractors go to people's homes to clean or make repairs), is trying to do something about it.[103] He worked with New York legislators to create legislation that would make it easier for employers to fund things like sick leave and portable benefits for their independent contractors, while keeping them as independent contractors.[104] Uber partners with Stride Health, a healthcare insurance marketplace that helps Uber drivers arrange for insurance they (not Uber) pay for themselves.[105]

LEARNING OBJECTIVE 13-3

Discuss the main retirement benefits.

Retirement Benefits

Retirement benefits such as Social Security and pension plans are big HR issues. For one thing, the huge contingent of baby boomers (born 1946–1964) is well into retirement age.

Significant retirement benefits racial disparities exist. For example 68% of White families have retirement savings accounts, compared with 41% of Black families and 35% of Hispanic families. Part of the reason is that Black men have a lower labor force participation rate than do White men, roughly 65% versus 69%.[106]

Social Security

Social Security
Federal program that provides three types of benefits: retirement income at the age of 62 and thereafter, survivor's or death benefits payable to the employee's dependents regardless of age at time of death, and disability benefits payable to disabled employees and their dependents. These benefits are payable only if the employee is insured under the Social Security Act.

Most people assume that **Social Security** provides income only when they are older than 62, but it actually provides three types of benefits. *Retirement benefits* provide an income if you retire at age 62 or thereafter and are insured under the Social Security Act. Second are *survivor's* or *death benefits*. These provide monthly payments to your dependents regardless of your age at death (assuming you're insured under Social Security). Finally, *disability payments* provide monthly payments to employees who become disabled totally (and to their dependents) if they meet certain requirements. The Social Security system also administers the Medicare program, which provides health services to people age 65 or older.

A tax on the employee's wages funds Social Security (technically, "Federal Old Age and Survivor's Insurance"). Recently, the maximum amount of earnings subject to Social Security tax was $147,000; the employer pays 7.65% and the employee 7.65%.[107] "Full retirement age" for nondiscounted Social Security benefits traditionally was 65—the usual age for retirement. It is now 67 for those born in 1960 or later.[108]

Pension Plans

pension plans
Plans that provide a fixed sum when employees reach a predetermined retirement age or when they can no longer work due to disability.

Pension plans provide income to individuals in their retirement, and just over half of full-time workers participate in some type of pension plan at work. Pension planners classify pension plans as *contributory versus noncontributory* plans, and as *defined contribution versus defined benefit* plans.[109] The employee contributes to contributory pension plans, while the employer makes all contributions to noncontributory plans. Defined benefits plans "define" how much the pension will be, while with defined contribution plans the benefits (if any) will depend on the contributions to the plan

and on how the assets performed. Note that some plans are also "qualified" (or not), insofar as they receive favorable treatment under the tax code.

defined benefit pension plan
A plan that contains a formula for determining retirement benefits.

Again, with **defined benefit pension plans**, the employee's pension is specified ("defined"), in that the person knows in advance his or her pension benefits. A formula usually ties the pension to a percentage of the person's preretirement pay (for example, to an average of the person's last 5 years of employment), multiplied by the years the person worked for the company). Due to tax law changes and other reasons, defined benefit plans now are a minority of pension benefit plans. Historically, even younger employees express a strong preference for defined benefit plans.[110] But apparently only about 4% of U.S. employees have access to such employer plans.[111]

defined contribution pension plan
A plan in which the employer's contribution to employees' retirement savings funds is specified.

Portability
Instituting policies that enable employees to easily take their accumulated pension funds when they leave an employer.

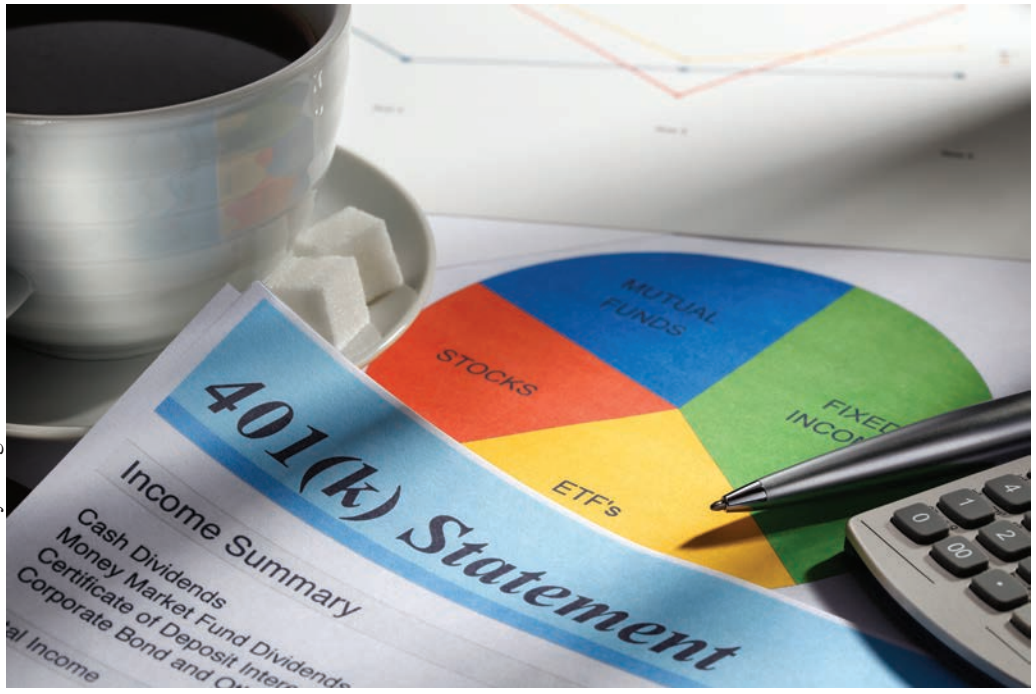
Defined contribution pension plans specify ("define") what *contribution* the employee and employer will make to the employee's retirement or savings fund.[112] Here the contribution is defined, not the pension. With a *defined benefit* plan, the employee can compute what his or her retirement *benefits* will be upon retirement. With a *defined contribution* plan, the actual pension will depend on the amounts contributed to the fund *and* on the success of the fund's investment earnings. Defined contribution plans are popular among employers due to their relative ease of administration, favorable tax treatment, and other factors. **Portability**—the ability of employees who leave the firm prior to retirement to take their accumulated pension funds with them—is easier with defined contribution plans.

401(k) plan
A defined contribution plan based on section 401(k) of the Internal Revenue Code.

401(K) PLANS The most popular defined contribution plans are based on section 401(k) of the Internal Revenue Code, and are called **401(k) plans**. Currently, the employee authorizes the employer to deduct a sum from his or her paycheck before taxes, and to invest it in a chosen bundle of investments in his or her 401(k) account. The deduction is pretax; therefore the employee pays no tax on those dollars until after they retire (or removes the money from the 401(k) plan). The person can deduct annually an amount up to the IRS maximum (about $15,000). Employers often match employees' 401(k) contributions dollar for dollar up to a set percentage. The employer arranges, usually with an investment company such as Fidelity or Vanguard, to administer the 401(k) plan and to make investment options (typically mutual stock funds and bond funds) available to the plan.

Signed into law in 2019, the SECURE Act improves retirement security.[113] For example, it lets long-term part-time workers have 401(k) plans; repeals the maximum

Firms such as Vanguard, Fidelity, and others can establish online, fully web-based 401(k) plans even for small firms with 10 to 50 employees.



DNY59/E+/Getty Images

age for traditional IRA contributions (formerly $70^{1/2}$); and lets parents withdraw up to $10,000 from 529 educational savings plans to repay student loans. Recently, Congress was also considering a new retirement security act.[114]

Employers must choose 401(k) providers with care. The employer has a fiduciary responsibility to its employees and must monitor the fund and its administration.[115] In addition to trustworthiness, the 401(k) plan provider should make it easy to enroll and participate in the plan.[116] Firms such as Vanguard, Fidelity, and others establish web-based 401(k) plans with online tools—such as an "asset allocation planner"—even for small firms. Employers must also monitor 401(k) housekeeping issues such as late deposits and incorrect employer matching contributions.[117]

Under the Pension Protection Act of 2006, employers who sponsor plans that facilitate both *automatic enrollment* and allocation to *default investments* (such as age-appropriate "lifestyle funds") reduce their compliance burdens.[118] Google's 401(k) plan automatically enrolls employees to contribute 10% of their eligible compensation. (The employee can decline.)[119] After the president signed the 2017 tax law, many large and midsize companies, including Honeywell and AFLAC, increased their 401(k) contributions (to get the higher tax deduction that year).[120]

savings and thrift plan
Plan in which employees contribute a portion of their earnings to a fund; the employer usually matches this contribution in whole or in part.

deferred profit-sharing plan
A plan in which a certain amount of profits is credited to each employee's account, payable at retirement, termination, or death.

employee stock ownership plan (ESOP)
A qualified, tax-deductible stock bonus plan in which employers contribute stock to a trust for eventual use by employees.

cash balance plans
Plans under which the employer contributes a percentage of employees' current pay to employees' pension plans every year, and employees earn interest on this amount.

Employee Retirement Income Security Act of 1974 (ERISA)
Signed into law by President Ford to require that pension rights be vested and protected by a government agency, the PBGC.

OTHER PLANS The 401(k) plan is one example of a **savings and thrift plan**.[121] In any such plan, employees contribute a portion of their earnings to a fund, and the employer usually matches this contribution completely or in part.

As discussed in Chapter 12 (Incentives), employers use a **deferred profit-sharing plan** to contribute a portion of their profits in cash to a pension fund, regardless of the level of employee contribution. An **employee stock ownership plan (ESOP)** is a qualified, tax-deductible defined contribution plan in which employers contribute stock to a trust for eventual use by employees who retire.

LIFETIME INCOME ACCOUNTS Some employers offer products called *lifetime income accounts* with other 401(k) options.[122] Lifetime income accounts are usually annuity products. Employees begin contributing to them when they are young. As they get closer to retirement, these accounts gradually shift investments from earnings (i.e., stocks) to providing income (i.e., bonds). This can have the effect of providing the employee with a predictable income in retirement.

CASH BALANCE PENSION PLANS With *defined benefits* plans, to get your maximum pension, you generally must stay with your employer until you retire—the formula takes the number of years you work into consideration. With *defined contribution* plans, your pension is more portable—you can leave with it at any time. **Cash balance plans** are a hybrid; they have defined benefit plans' more predictable benefits, but the portability of defined contribution plans. The employer contributes a percentage of employees' current pay (usually 5%) to the employees' pension plans every year, and employees earn interest on this amount.[123]

Know Your Employment Law: Pension Planning Laws

Various federal laws regulate pension planning and administration. As a rule, pension planning requires expert help.[124]

The **Employee Retirement Income Security Act of 1974 (ERISA)** requires that employers have written pension plan documents and adhere to certain guidelines, such as regarding eligibility.[125] ERISA protects the employer's pension or health plans' assets by requiring that those who control the plans act responsibly. The *fiduciary's* responsibility is to run the plan solely in the interest of participants and beneficiaries.

Employers (and employees) also want their pension contributions to be "qualified," or tax deductible, so must adhere to the *income tax codes*. Under *labor relations laws*, the employer must let its unions participate in pension plan administration. The *Job Creation and Worker Assistance Act* provides guidelines regarding what rates of return employers should use in computing their pension plan values.

Pension Benefits Guarantee Corporation (PBGC)
Established under ERISA to ensure that pensions meet vesting obligations; also insures pensions should a plan terminate without sufficient funds to meet its vested obligations.

ERISA established the **Pension Benefits Guarantee Corporation (PBGC)** to oversee and insure a pension if a plan terminates without sufficient funds. Thousands of benefits plans, both private and public, are worryingly underfunded.[126] However, the PBGC guarantees only defined benefit plans, not defined contribution plans. And it will only pay a pension of up to about $6,750 per month for someone 65 years of age with a plan terminating as of 2023.[127] So, high-income workers still face reduced pensions if their employers go bankrupt.

MEMBERSHIP REQUIREMENTS When does the employee become eligible for a pension? Under the Tax Reform Act of 1986, an employer can require that an employee complete a period of no more than 2 years' service to the company before becoming eligible to participate in the plan. However, if it requires more than 1 year of service before eligibility, the plan must grant employees full and immediate vesting rights at the end of that period.

VESTING *Vested funds* are the money employer and employee have placed in the latter's pension fund that cannot be forfeited for any reason. The employees' contributions are always theirs. However, until ERISA, the *employers'* contribution in many pension plans didn't vest until the employee retired. Someone could have worked for a company for 30 years and been left with no pension if the company went bust a year before the person retired.

Employers can choose one of two minimum vesting schedules (employers can allow funds to vest faster if they wish). With *cliff vesting*, the period for acquiring a nonforfeitable right to employer matching contributions (if any) is 3 years. So, the employee must have nonforfeitable rights to these funds by the end of 3 years. With the second (*graded vesting*) option, pension plan participants must receive nonforfeitable rights to the matching contributions as follows: 20% after 2 years, and then another 20% for each succeeding year, with a 100% nonforfeitable right by the end of 6 years.[128]

Pensions and Early Retirement

early retirement window
A type of offering by which employees are encouraged to retire early, the incentive being liberal pension benefits plus perhaps a cash payment.

To trim their workforces or for other reasons, some employers encourage employees to retire early. Many such programs take the form of **early retirement window** arrangements for specific employees (often age 50+). The "window" means that for a limited time, the employees can retire early, generally with a combination of improved or liberalized pension benefits plus a cash payment.

Early retirement programs can backfire, however. In the early 2000s Verizon offered enhanced pensions to encourage 12,000 employees to retire. When over 21,000 took the plan, the company had to replace 16,000 managers.[129] Furthermore, unless structured properly, older employees can challenge early retirement programs for forcing them to retire involuntarily. Although it is generally legal to use incentives to encourage individuals to choose early retirement, the employee's decision must be voluntary. Under the Older Workers' Benefit Protection Act (OWBPA), the employee's waiver must be knowing and voluntary, and the employee must have ample time to consider the agreement and seek legal advice.

Online Benefits Management Systems

It can be enormously time-consuming answering benefits questions such as, "If I retire in 5 years, what will be my monthly retirement income?" Most employers therefore opt for online self-service applications.

For example, when the organization that assists Pennsylvania school districts with their insurance needs decided to help the school boards automate their benefits administration, they chose a company called Benelogic.[130] The solution, called the "Employee Benefit Electronic Service Tool," lets users manage all aspects of benefits administration, including enrollment, plan descriptions, eligibility, and premium reconciliation, via their browsers.[131]

Benelogic hosts and maintains the web application on its servers, and creates customized, web-based applications for each school district. The system facilitates online employee benefit enrollment, and provides centralized call center support for benefit-related questions. It even handles benefits-related payroll and similar functions by collaborating with companies like ADP (for payroll). Each school board employee accesses the Benelogic site via a link on his or her own board's website.

SOCIAL MEDIA SYSTEMS[132] Many employers use their Facebook and LinkedIn pages to publicize their benefits to a wider audience. Siemens created an internal social media website for its 13,000 UK employees. Siemens UK uses it to keep its employees up-to-date about its latest employee benefits offerings, to run real-time employee feedback polls about Siemens benefits, and to remind employees about the availability of various benefits. (For example, that each employee has points to use as part of the Siemens employee recognition program.)

To facilitate employee benefits self-management, other employers provide workers with mobile apps.[133] For example, clients of Discovery Benefits Inc.(now Wex Inc.,) a benefits administrator, reportedly logged in through its app about 25,000 times in one year, saving Discovery the time it would have spent dealing with call-ins.[134]

Social media sites can also get workers in trouble. In one case, an employee took a sick day, saying that chronic pain prevented her from working. Unfortunately, she posted pictures of herself drinking at a festival the day she was supposed to be home sick. One of her Facebook "friends" got the photo and showed it to a company supervisor. The company fired her for absence, and an appeals court upheld the employer's decision.[135]

LEARNING OBJECTIVE 13-4

Outline the main employees' services benefits.

Personal Services and Family-Friendly Benefits

Although time off, insurance, and retirement account for the lion's share of benefits costs, most employers also provide various services benefits. These include personal services (such as legal and personal counseling), "family-friendly" services (such as child-care facilities), educational subsidies, and executive perquisites (such as company cars for executives).

Personal Services

Personal services benefits include credit unions, legal services, counseling, and social and recreational opportunities. Others are adding mindfulness training programs. About 90% of employees say meditation or mindfulness programs positively affected their well-being.[136] All are voluntary benefits, rather than required or mandatory under the law.

Employee assistance program (EAP)
A formal employer program for providing employees with counseling and/or treatment programs for problems such as alcoholism, gambling, or stress.

Perhaps most notably, **employee assistance programs (EAPs)** provide counseling and advisory services, such as personal legal services, adoption assistance, or mental health counseling, for personal problems that may affect the employee's work life. As the EAP site for one such plan at Sutter Health says, "Life's journey isn't always a smooth one. Sutter Health recognizes this and wants to help you overcome obstacles through the Employee Assistance Program."[137] Its EAP offers consulting on: child-care and parenting issues, elder care and disabled adult issues, pet care needs, adoptions, school, high school and college selection, and financial planning.[138]

Few but the largest employers establish their own EAPs. Most contract with vendors such as Ceridian LifeWorks, ComPsych®, and Integrated Behavioral Health.[139]

In either case, everyone involved, including supervisors and EAP staff, must respect *confidentiality*. Also keep files locked, limit access, and minimize identifying information. *Be aware of legal issues*. For example, in most states counselors must disclose suspicions of child abuse to state agencies. *Define* the program's purpose, employee eligibility, the roles and responsibilities of EAP and employer personnel, and procedures for using the plan. Ensure your EAP vendors fulfill *professional and state licensing requirements.*

Family-Friendly Benefits

family-friendly (or work–life) benefits
Benefits such as child care that make it easier for employees to balance their work and family responsibilities.

Family-related distractions—a sick child or parent, for instance—can make it difficult for employees to work effectively. Therefore, creating a family-friendly workplace through **family-friendly (or work–life) benefits** is important. Such benefits include, for instance, child care, elder care, flexible work schedules, paid family leave, and concierge services (for help with tasks like grocery shopping).[140]

SUBSIDIZED CHILD CARE A study by the Brookings Institution listed some consequences of inadequate child care, including deleterious effects on children, lost productivity for employers due to parents missing work, and lost wages for parents.[141] Employers who want to reduce the distractions associated with finding reliable child care can help. Some investigate the day care facilities in their communities and recommend certain ones to employees. Others set up company-sponsored and subsidized day care facilities. For example, Goldman Sachs established its Children's Centre at its London facility, to offer backup child care for Goldman staff; the Centre takes children between three months and 12 years old.[142]

For many millennials, child-care benefits can trump higher pay. Netflix recently told employees they can take a year off for child care.[143] Policies like these not only benefit employees. Employers may gain in improved recruiting results, lower absenteeism, improved morale, and lower turnover. As usual, start by surveying employees to assess their needs, and perhaps what they'd be willing to pay.

Software giant SAS Institute, Inc., is one company that offers generous employee benefits. The North Carolina firm keeps turnover at 4% in an industry where 20% is typical, partly by offering family-friendly and other benefits like paid maternity leave, day care on site, lunchtime piano concerts, massages, and yoga classes like this one.

Blend Images/SuperStock

SICK CHILD BENEFITS Sick child benefits are important. Sending a sick child to school because the parents must work risks worsening the child's condition and exposing classmates and teachers. Yet only about half of U.S. workers are eligible for paid sick days that they can use for family members, so they risk pay loss and job loss by staying home.[144] By one estimate, sick children, sick nannies, and snow days cause about 2.8 million days of absences per year for U.S. employers.[145] The FMLA provides only unpaid leave, and not all employees are even eligible for that. Several states and cities including California, New Jersey, and New York City do provide for family-related paid sick leave.[146]

Employers can do several things. To use paid sick days, some employees claim they themselves are ill, but the better alternative is a policy allowing use for sick children too. Paid time off banks facilitate this. Flexible schedules and telecommuting policies can help. Some employers offer last-minute backup care, either with on-site centers (like Goldman Sachs'), or by making available last-minute in-home nannies.[147]

ELDER CARE By one estimate, 80% of elderly care is done by family members.[148] As with child care, female employees tend to bear the brunt of providing care for elderly parents. Helpful benefits for them (as well as male workers) include 10 to 15 days of backup elder care,[149] scheduling flexibility, and sabbaticals (for those needing extended time off).[150] About 43% of employers in one survey provide information on available elder care services.[151] When Pfizer discovered from a survey how many employees needed elder care services, it improved flexible schedule options, trained managers in how to handle such requests, and offered geriatric assessments.[152] Companies including Meta and Vanguard have paid time off benefits to care for sick relatives.[153]

Finally, don't ignore employees who do *not* have family members to care for. For example, treat requests for schedule flexibility or time off seriously, regardless of the employee's family or marital status.[154]

EDUCATIONAL SUBSIDIES Employers use educational subsidies (usually tuition assistance) to help employees pursue educational course work, usually at the undergraduate or graduate college level, but also for

basic learning, such as high school equivalency degrees.[155] About 88% of employers offer tuition assistance. Whirlpool Corp., has long done so. In one case, it first helped pay for one employee to study at a community college. Then she went on to a local university. Whirlpool then encouraged her to pursue her MBA, before promoting her to senior leadership.[156]

It may at first seem counterintuitive to subsidize an employee to get a degree that might then prompt him or her to move to a better job somewhere else, and educational benefits can have such unintended effects. But in general, educational subsidies seem to more than pay for themselves, in terms of improved employee recruiting and retention, and by raising employees' skills and productivity.

Introducing such a program requires policy decisions. For example, some employers only reimburse the employee after the course is completed, or if a particular grade is obtained. Some pay part of the tuition up front and then the remainder after completion. Some require repayment if the employee leaves the firm within a specific time period.

Other Personal Services Benefits

Employers provide other personal services (sometimes called "voluntary") benefits.[157] Google is famous for its personal services benefits. It arranges with local vendors to provide on-Google-site programs such as ATMs, mobile libraries, bike repair, car wash and oil change, dry cleaning, haircuts and salons, and organic grocery delivery.[158] It also offers the Google Child Care Center, and free shuttle service from San Francisco, and has a "20% time" policy. This lets employees spend 20% of their working hours on personal projects that might be of value to Google.[159] Free though they are to Google, why does Google even bother? Largely because their on-site availability boosts employees' efficiency by reducing the need for them to seek services off-site.[160]

CVS Caremark, seeking to retain older employees, offers various elder-friendly benefits. Its "snowbird" program let pharmacists winter in Florida and work in the Northeast when it's warmer, for instance.[161] Nestlé Purina Pet Care's St. Louis headquarters lets employees bring their dogs to work.[162] PricewaterhouseCoopers helps employees pay off student loans.[163] Most *Fortune* 500 companies offer donation-matching programs.[164] Other voluntary benefits range from pet insurance to legal help, and genome mapping.[165]

Domestic Partner Benefits

When employers provide *domestic partner benefits* the employees' domestic partners are eligible to receive the same benefits (health care, life insurance, and so forth) as do the legal spouse or legal dependent of one of the firm's employees.

In 2015, the U.S. Supreme Court held that same-sex couples can marry nationwide.[166] After the 2015 decision, the percentage of employers providing domestic partner benefits dipped, from 59% to 48%.[167] Some employers such as IBM and Verizon said they would phase out domestic partner benefits, but gave employees who were receiving such benefits time to consider getting married. With same sex marriage legal in all 50 states, most employers are moving to "not differentiate between types of spouses" in offering benefits.[168]

The Strategic Context: Clif Bar

Gary Erickson started Clif Bar as a small bakery and grew it into a company that's been growing 20% per year. Central to his "healthy foods" strategy is the idea that his hundreds of employees should live the values of sustainability, healthiness, and eco-friendliness.[169] Therefore, he put together a benefits package that encouraged just such values. For example, the company encourages eco-friendliness by reimbursing employees up to $6,500 if they buy hybrid or electric vehicles. Those who bike or walk to work receive $1,500 per year. Clif Bar's subsidized cafeteria serves meals cooked with local organic ingredients. Employees become eligible for 6-week paid sabbaticals after 7 years working for the company. He put in place an employee stock option

plan (ESOP). With employee turnover only 3% per year, Clif Bar received over 7,500 applications for 114 open jobs one year, so his benefits plan also seems to be helping keep workforce costs under control.

Executive Perquisites

When you reach the pinnacle of the organizational pyramid—or close to the top—you will find, waiting for you, the "executive perk." Perquisites (perks for short) are special benefits for top executives. They range from company planes to private bathrooms.

Most fall between these extremes. Perks include *management loans* (typically to exercise executives' stock options); *financial counseling*; and *relocation benefits*, often including subsidized mortgages, purchase of the executive's current house, and payment for the move. Publicly traded companies must itemize all executives' perks (if they total more than $100,000). Many popular perks (such as entertainment expenses) lost their tax breaks under the 2017 tax law, and many employers are reducing or phasing them out.[170]

LEARNING OBJECTIVE 13-5

Explain the main flexible benefit programs.

Flexible Benefits Programs

Glassdoor says employees increasingly seek flexibility.[171] They say baby boomers value salary level, health insurance, and retirement plans. Gen Xers (born roughly from the 1960s to the early 1980s) value salary level, a 401K plan, job security, advancement, and work–life balance. Millennials (born roughly from the early 1980s to early 2000s) value benefits choices, paid time off, ability to work remotely, schedule control, and flexibility. It is said that Gen Zs (1997–2012) want to align their skillsets with the right job, to prioritize work–life balance, recognition and gratification, and a faster growth curve. [172] Offering flexibility thus makes sense (once you survey employees' preferences).[173]

The Cafeteria Approach

cafeteria benefits plan
Individualized tax-qualified plans allowed by employers to accommodate employee preferences for benefits.

One way to provide choice is with an aptly named *cafeteria benefits plan*.[174] To paraphrase the U.S. Internal Revenue Service, a **cafeteria benefits plan** provides participants an opportunity to receive a choice of certain benefits on a pretax basis. Qualified benefits include, for instance, accident and health benefits, adoption assistance, dependent care assistance, and group-term life insurance coverage.[175]

Cafeteria plans come in several varieties. For example a *flexible spending arrangement* (FSA) is generally funded by the employee, and lets the employee pay for many out-of-pocket medical expenses, such as dependent care assistance and medical care reimbursements, with tax-free dollars.[176]

HR Tools for Line Managers and Small Businesses: Employee Leasing

Many businesses—particularly smaller ones—don't have the resources or employee base to support the cost of many of the benefits we've discussed in this chapter. That's one big reason they turn to "employee leasing."

In brief, employee leasing firms (also called *professional employer organizations* or *staff leasing firms*) assume all or most of the employer's human resources chores.[177] In doing so, they also become the employer of record for the employer's employees, by transferring them all to the employee leasing firm's payroll. The leasing firm thus becomes the employees' legal employer, and usually handles employee-related activities such as recruiting, hiring (with client firms' supervisors' approvals), and paying taxes (Social Security payments, unemployment insurance, and so on).

But insurance and benefits are usually the big attraction. Even group rates for life or health insurance can be quite high when only 20 or 30 employees are involved. That's where leasing comes in. Remember that the leasing firm is now the legal employer. The employees are thus part of a larger insurable group, along with other employers' former employees. The small business owner may get insurance it couldn't otherwise afford.

As in dealing with all vendors, there are some risks. For example, understand that if the leasing firm goes out of business, your employees may find themselves with no coverage. In any case, the employer should have a detailed negotiated agreement with the employee leasing firm. Define what the services will be; include priorities, responsibilities, and warranties. The IRS has a voluntary program for certifying PEOs that qualify as Certified Professional Employer Organization.[178]

Flexible Work Schedules

Flexible work schedules are popular. In one survey prior to the pandemic about 70% of surveyed employees called flexible work hours "very important."[179] Remote work is particularly popular, as the accompanying New Normal box explains.

THE NEW NORMAL

Remote and Hybrid Work

telecommuting
Also called telework, telecommuting means using technology such as email, phones, and the Internet to perform one's work while away from the office.

Telecommuting (also called telework) means using technology such as email, phones, and the Internet to perform one's work while away from the office. Some distinguish between occasional or ad hoc *telecommuting* work, and *remote* work, with the latter meaning jobs formally designed to be done remotely.[180]

Working remotely is nothing new. In 2017, 62% of employers offered at least some telecommuting.[181] Historically, for example, almost 45% of medical transcription was done from home.[182] In 2018, just over 13 million Americans worked from home at least one day per week. Fridays and Mondays were the favorite days to stay home.[183]

The pandemic, of course, expanded working remotely.[184] In 2019, about 60% of remote capable workers were working fully at the office; that dropped to 19% in 2022. About 8% were working only off-site in 2019; that jumped to 39% in 2022. About 32% had hybrid work arrangements in 2019; 42% did in 2022. About two-thirds of high-growth companies have hybrid work arrangements.[185]

There are several hybrid work models.[186] With *flexible hybrid work*, where employees choose to work particular days depends on the priorities. With *fixed hybrid work,* the employer sets the hours and days, such as requiring office work on Tuesdays and Thursdays. *Office–first* hybrid work requires that employees mostly work in the office, but with some flexibility to work from home. Finally, *remote-first* work means employees mostly work remotely, but occasionally work in the office (perhaps using co-working spaces).[187]

In any case, most employers that offer telecommuting must calculate the benefits and costs. For example, Delta Airlines spends an initial $2,500 for each home-based reservation agent for computer and software licenses. However, it pays each such agent $1.50 per hour less than call-center counterparts. "Hidden" expenses include IT staff answering telecommuters' technical questions.[188]

Studies of telecommuting's effects on productivity are mixed. A program at Capital One Bank apparently led to about a 41% increase in workplace satisfaction, and a 53% increase in those who said it enhances productivity.[189] Detractors contend that telecommuting reduces camaraderie and opportunities for collaboration.[190] Employees tend to like the flexibility and the commuting time saved.

Most managers don't want workers fully remote.[191] For example, top executives at Apple and JP Morgan both pressed for a post-pandemic return to the office.[192] It's a different story for the workers. Of those with remote capable jobs, 32% would prefer being exclusively remote, and 59% prefer hybrid work. A Gallup survey found that when workers who prefer hybrid or fully remote work are forced to work fully on-site, they exhibit lower engagement and well-being. Furthermore, 54% say they'd probably look for another job if they couldn't work from home. In 2022, for the first time, a majority of applications for paid LinkedIn job posts were for remote jobs.[193]

The things driving the trend toward remote/hybrid work hold few surprises.[194] Studies, including one from the McKinsey consulting firm, suggests that remote work usually boosts productivity. Employees like the flexibility, and commuting less.

Many employers see an advantage in reducing office space. And cutting down on commuting supports sustainability.[195]

However, remote work isn't for everyone. About 38% of those fully remote would rather have the periodic interactions at the office that hybrid work allows.

Furthermore, preferences for remote/hybrid work are age-sensitive. For example, an Accenture survey concluded that over 74% of Gen Z respondents (born 1997–2012) prefer going into the office at least occasionally and interacting with colleagues. Part of this may reflect the realization that personal interactions are important, particularly early in one's career. Google's former CEO says that building management skills (including developing management styles) is hard to do remotely.[196] ■

The pandemic also seems to have provided new impetus to other flexible work arrangements. For example companies including Kickstarter and Shake Shack recently added four-day workweeks.[197]

COMPRESSED WORKWEEKS Many employees, like airline pilots, don't work conventional 5-day, 40-hour workweeks.[198]

compressed workweek
Schedule in which employee works fewer but longer days each week.

Workers like these (and others) typically have **compressed workweek** schedules—they work fewer days each week, but each day they work longer hours. Some firms have four 10-hour day workweeks. Some workers—in hospitals, for instance—work three 12-hour shifts, and then take off for 4 days.[199] About 29% of employers in one survey reported using compressed workweeks.[200] Some experts argue that 12-hour shifts increase fatigue and accidents. To reduce potential side effects, some install exercise bikes, and special lights that mimic daylight.

OTHER FLEXIBLE WORK ARRANGEMENTS **Flextime** is a plan whereby employees' workdays are built around a core of midday hours, such as 11:00 A.M. to 2:00 P.M. Thus, workers may opt to work from 8:00 A.M. to 4:00 P.M. or from 11:00 A.M. to 7:00 P.M. In one survey of employers about 74% offered flextime.[201]

flextime
A work schedule in which employees' workdays are built around a core of midday hours, and employees determine, within limits, what other hours they will work.

Job sharing allows two or more people to share a single full-time job. For example, two people may share a 40-hour-per-week job, with one working mornings and the other working afternoons. [202] About 9% of the firms questioned recently indicated that they allow job sharing.[203] **Work sharing** refers to a temporary reduction in work hours by a group of employees during economic downturns to prevent layoffs. Thus, 400 employees may all agree to work (and be paid for) only 35 hours per week, to avoid a layoff of 30 workers.[204]

job sharing
Allows two or more people to share a single full-time job.

work sharing
Refers to a temporary reduction in work hours by a group of employees during economic downturns as a way to prevent layoffs.

How effective one's flexible work schedule is depends partly on how couples share their domestic duties; the accompanying Diversity Counts box explains.

DIVERSITY COUNTS

Caring for the Kids

Dual career couples with children have an additional challenge when working remotely: who cares for the kids? In one recent study, the researchers looked at 274 dual career couples with children. At the start of the study, the couples completed surveys. Items included, What is your gender? How many children do you have under six? What is your and your spouse's plan for dealing with your work commitments, and with child-care when your normal child care is disrupted? [205]

Seven weeks later the researchers followed up with a new survey. Items included, Did family members help and support one another? And, please rate how you have felt about your job performance during this period.

The couples split into three basic categories. About 37% used child-care strategies that depended almost entirely on the women meeting the children's needs. About 44% used egalitarian child-care strategies (for example, each was responsible for child care on successive days). About 19% could not be clearly classified as to who took care of the children.

In this study, the women in the "remote wife does it all" category fared the worst. They had the lowest self-reported well-being and performance after seven weeks. ■

LEARNING OBJECTIVE 13-6

Explain how to use benefits to improve engagement, productivity, and performance.

Employee Engagement Guide for Managers

Costco's Compensation Plan

Costco's HR strategy is to deflect Walmart's famously low costs and wages by paying employees more, and thereby producing improved employee engagement, productivity, and customer service.[206]

For example, in 2021 Costco raised its minimum hourly pay to $17 per hour;[207] Walmart was paying a minimum of $12, by comparison.[208]

Costco's employee benefits are also highly competitive, particularly compared with the typically sparse offerings in the retail industry.[209] For example, Costco pays about 90% of the health insurance costs of its over 90,000 domestic employees.[210] Its other benefits include (as examples) dental care, a pharmacy/prescriptions program, a vision program, a 401(k) plan, a dependent care assistance plan, an external network of professional counselors, voluntary short-term disability, long-term disability, and life insurance.[211] Costco also extends these benefits to employees' spouses, children, and domestic partners.

Costco doesn't directly measure employee engagement; it says it tracks engagement by "by-products," such as turnover and productivity.[212] By those criteria, Costco's engagement efforts seem to be working. Its sales per employee are about $500,000 a year versus $340,000 at Walmart's Sam's Club.[213] Costco's turnover is far below the retail industry average, and employee retention is higher.[214] Costco, by the way, is not alone. Other large chains with traditionally excellent customer service, like Nordstrom and the Container Store, also do well financially, in part by treating employees well and keeping engagement up.[215]

Chapter Review

Chapter Section Summaries

13-1. Employers provide numerous **pay for time not worked benefits.** These include unemployment insurance, vacation and other leave days, and sick pay. Minimizing sick leave pay is important, and here cost reduction tactics include paid leave plans that lump sick leave, vacation, and holidays into one leave pool. The Family and Medical Leave Act requires larger employers to provide up to 12 weeks of unpaid leave for family-related issues.

13-2. Most employers also provide required or voluntary **insurance benefits.** Workers' compensation laws aim to provide sure, prompt medical benefits to work-related accident victims or their dependents, regardless of fault. Most employer health plans provide at least basic hospitalization and surgical and medical insurance for eligible employees. When an employee is terminated or terminates his or her employment, it is essential that the employer make the person aware of his or her COBRA rights. Employers generally work hard to keep the rising cost of healthcare insurance under control.

13-3. **Retirement benefits** are important to employees today. Social Security is a federal program that provides retirement income at the age of 62 and thereafter, as well as other benefits. Many employers make available pension plans; these provide an income when employees reach retirement age or when they can no longer work due to disability. Defined benefit plans contain a formula for specifying retirement benefits, while defined contribution plans are plans in which the contribution to employees' retirement savings plans is specified. The most well-known of the latter are 401(k) plans. The Employee Retirement Income Security Act of 1974 requires that employers have written pension plan documents, and established the Pension Benefits Guarantee Corporation to oversee employers' pension plans. Key pension policy issues include eligibility requirements and testing.

13-4. Most employers also provide various **personal services and family-friendly benefits.** These include credit unions, employee assistance programs, and subsidized child care and elder care.

13-5. Employees prefer choice in their benefits plans, so **flexible benefits programs** are important. Flexible benefits or cafeteria benefits plans are individual plans that accommodate employee preferences for benefits. Some employers turn to employee leasing companies to capitalize on the advantage of the leasing firm's large employee base to get better employee benefits for their employees. Employers also are implementing various types of flexible work schedules, including flextime, remote/hybrid work, compressed workweeks, and other flexible work arrangements such as job sharing.

13-6. Costco's HR strategy is to deflect Walmart's low wages by paying employees more, thereby producing more **employee engagement,** higher productivity, and better customer service. As one example, Costco pays about 90% of the health insurance costs of its over 90,000 domestic employees.

Discussion Questions

13-1. What is unemployment insurance? Is an organization required to pay unemployment benefits to all dismissed employees? Explain how you would go about minimizing your organization's unemployment insurance tax.

13-2. Explain how ERISA protects employees' pension rights.

13-3. Describe the main retirement benefits.

13-4. What are the main provisions of the FMLA?

Individual and Group Activities

13-5. Working individually or in groups, research the unemployment insurance rate and laws of your state. Write a summary detailing your state's unemployment laws. Assuming Company X has a 30% rate of annual personnel terminations, calculate Company X's approximate unemployment tax rate in your state.

13-6. Assume you run a small business. Working individually or in groups, visit the website www.dol.gov/elaws. See the Small Business Retirement Savings Advisor (https://webapps.dol.gov/elaws/ebsaplan.htm). Write a two-page summary explaining: (1) the various retirement savings programs available to small business employers, and (2) which retirement savings program you would choose for your small business, and why.

13-7. You are the HR consultant to a small business with about 40 employees. Now the firm offers only 5 days of vacation, 5 paid holidays, and legally mandated benefits such as unemployment insurance payments. Develop a list of other benefits you believe it should offer, along with your reasons for suggesting them.

13-8. The HRCI *Exam Content Outline* website https://www.hrci.org/docs/default-source/web-files/phr-exam-content-outline.pdf?sfvrsn=13c44f61_28 lists the knowledge someone studying for the HRCI PHR certification exam needs to have in each area of human resource management (such as in Business Management, and in Talent Planning and Acquisition.[216] In groups of several students, do four things: (1) review the *Exam Content Outline* on that website; (2) identify the material in this chapter that relates to the Exam Content Outline's required "Knowledge Of" lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.

Experiential Exercise

Revising the Benefits Package

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Purpose: The purpose of this exercise is to provide practice in developing a benefits package for a small business.

Required Understanding: Be very familiar with the material presented in this chapter. In addition, review Chapter 11 to reacquaint yourself with sources of compensation survey information, and come to class prepared to share with your group the benefits package for

the small business in which you work or in which someone with whom you're familiar works.

How to Set Up the Exercise/Instructions: Divide the class into groups of four or five students. Your assignment is as follows: Maria Cortes runs a small personnel recruiting office in Atlanta and has decided to start offering an expanded benefits package to her 25 employees. At the current time, the only benefits are 7 paid holidays per year and 5 sick days per year. In her company, there are 2 other managers, as well as 17 full-time recruiters and 5 clerical staff members. Your assignment is as follows:

- In the time allotted, your group should create a benefits package in keeping with the size and requirements of this firm.

Application Case

Striking for Benefits[217]

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When the Southern California grocery workers went on strike against the state's major supermarket chains, the main issue was employee benefits, and specifically how much of their healthcare costs the employees should pay themselves. Based on their existing contract, the workers had unusually good health benefits. For example, they paid nothing toward their health insurance premiums, and paid only $10 co-payments for doctor visits. However, supporting these excellent health benefits cost the big Southern California grocery chains over $4 per hour per worker.

The big grocery chains were not proposing cutting healthcare insurance benefits for their existing employees. Instead, they proposed putting any new employees hired after the new contract went into effect into a separate insurance pool, and contributing $1.35 per hour for their health insurance coverage. That meant new employees' health insurance would cost each new employee perhaps $10 per week. And, if that $10 per week wasn't enough to cover the cost of health care, then the employees would have to pay more, or do without some of their benefits.

It was a difficult situation for all involved. For the grocery chain employers, skyrocketing healthcare costs were undermining their competitiveness; the current employees feared any step down the slippery slope that might eventually mean cutting their own health benefits. The unions didn't welcome a situation in which they'd end up representing two classes of employees, one (the existing employees) who had excellent health insurance benefits, and another (newly hired employees) whose benefits were relatively meager, and who might therefore be unhappy from the moment they took their jobs and joined the union.

Questions

13-9. Assume you are mediating this dispute. Discuss five creative solutions you would suggest for how the grocers could reduce the health insurance benefits and the cost of their total benefits package without making any employees pay more.

13-10. From the grocery chains' point of view, what is the downside of having two classes of employees, one of which has superior health insurance benefits? How would you suggest they handle the problem?

13-11. Similarly, from the point of view of the union, what are the downsides of having to represent two classes of employees, and how would you suggest handling the situation?

Continuing Case

Carter Cleaning Company

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The New Benefit Plan

Carter Cleaning Centers has traditionally provided only legislatively required benefits for its employees. These include unemployment compensation, Social Security, and workers' compensation (which is provided through the same insurance carrier that insures the stores for such hazards as theft and fire). The principals of the firm—Jack, Jennifer, and their families—have individual, family-supplied health and life insurance.

Jennifer can see several potential problems with the company's policies regarding benefits and services. One is turnover. She wants to study whether similar companies' experiences with providing health and life insurance benefits enable these firms to reduce employee turnover and perhaps pay lower wages. Jennifer is also concerned that her company has no formal vacation or paid days off or sick leave policies. Informally, at least, it is understood that employees get 1 week's vacation after 1 year's work, but in the past the policy regarding paid vacations for days such as New Year's Day and Thanksgiving Day has been very inconsistent. Sometimes employees who had been on the job only 2 or 3 weeks were paid fully for one of these holidays, while at other times employees who had been with the firm for 6 months or more had been paid for only half a day.

She also wonders whether it would be advisable to establish some type of day care center for the employees' children. Many of them have no place to go during the day (they are preschoolers) or have no place to go after school; she wonders whether a day care benefit would be in the best interests of the company.

Questions

13-12. Draw up a policy statement regarding vacations, sick leave, and paid days off for Carter Cleaning Centers.

13-13. What would you tell Jennifer are the advantages and disadvantages to Carter Cleaning Centers of providing its employees with health, hospitalization, and life insurance programs?

13-14. Would you advise establishing some type of day care center for the Carter Cleaning employees? Why or why not?

Translating Strategy into HR Policies and Practices Case*,§

**The overall strategy map on the inside back cover of this text outlines the relationships involved.*

Improving Performance at the Hotel Paris

The New Benefits Plan

The Hotel Paris's competitive strategy is "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy by eliciting the required employee behaviors and competencies.

While the Hotel Paris's benefits (in terms of things like holidays and health care) were comparable to other hotels', Lisa knew they weren't good enough to support the high-quality service behaviors her company sought. Indeed, the fact that they were roughly comparable to those of similar firms didn't seem to impress the Hotel Paris's employees. Sixty percent of them consistently said they were dissatisfied with their benefits. Lisa's concern (with which the CFO concurred) was that dissatisfaction with benefits contributed to low morale and engagement, and thus to inhibiting the Hotel Paris from achieving its strategic aims. Lisa therefore turned to the task of assessing and redesigning the company's benefits plans.

As they reviewed the benefits numbers, Lisa and the CFO became concerned. They computed several benefits-related metrics for their firm, including benefits costs as a percentage of payroll, sick days per full-time-equivalent employee per year, benefits cost/competitor's benefits cost ratio, and workers' compensation experience ratings. The results, said the CFO, offered a "good news–bad news" situation. On the good side, as noted, the ratios were similar to most competing hotels'. The bad news was that the measures were well below those for high-performing service businesses. The CFO authorized Lisa to design and propose a new benefits plan.

Lisa knew there were several things she wanted to accomplish. She wanted a plan that contributed to improved employee morale and engagement. And, she wanted the plan to include elements that made it easier for her employees to do their jobs—so that, as she put it, "they could come to work and give their full attention to giving our guests great service, without worrying about child care."

The new plan's centerpiece was a proposal for much better family-friendly benefits. Because so many of each hotel's employees were single parents, and because each hotel had to run 24 hours a day, Lisa's team proposed, and the board approved, setting aside a room in each hotel for an on-site child-care facility and for hiring a trained professional attendant. They considered instituting a flexible work schedule program, but for most of the jobs, this was impractical, because each front-line employee simply had to be there at his or her appointed hour. However, they did institute a new job-sharing program. Now two people could share one housekeeping or front-desk clerk job, as long as the job was covered.

One of the metrics Lisa and her team specifically wanted to address was the relatively high absence rate at the Hotel Paris. Because so many of these jobs are front-line jobs—valets, limousine drivers, and front-desk clerks, for instance—absence had a particularly serious effect on metrics like overtime pay and temporary help costs. Here, at the urging of her compensation consultant, Lisa decided to opt for a system similar to one at Marriott. With this benefit program, employees can trade the value of some sick days for other benefits. As Lisa put it, "I'd rather see our employees using their sick day pay for things like additional healthcare benefits, if it means they'll think twice before taking a sick day to run a personal errand."

After just less than a year, Lisa and the CFO believe the new program is successful. Their studies suggest that the improved benefits are directly contributing to improved employee morale and commitment, sick days have diminished by 40%, and employee turnover is down 60%. And when they advertise for open positions, over 60% of the applicants cite "family-friendly benefits" as a top reason for applying to work at the Hotel Paris.

Questions

13-15. What is your opinion of the new Hotel Paris benefits plan?

13-16. Because employers typically make benefits available to all employees, they may not have the motivational effects of incentive plans. Given this, list five employee behaviors you believe Hotel Paris could try to improve through an enhanced benefits plan, and explain why you chose them.

13-17. Given your answer to question 13-16 and what you read in this chapter of Dessler, *Human Resource Management*, explain specifically what other benefits you would recommend the Hotel Paris implement to achieve these behavioral improvements.

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Writing Assignments

13-18. You are applying for a job as a manager and are at the point of negotiating salary and benefits. What questions would you ask your prospective employer concerning benefits? Describe the benefits package you would try to negotiate for yourself.

13-19. Your clients want to know how they can use their employee benefits package to improve employee engagement. What would you tell them?

Key Terms

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14 Building Positive Employee Relations

WHERE ARE WE NOW . . .

Although people tend to view recruitment, selection, appraisal, training, and pay as the heart of human resource management, most employees expect something more. For example, they expect to be treated fairly, and to have a safe workplace. Now, in Part Five, we therefore turn to ethics, fairness, safety, and union relations. The main purpose of Chapter 14 is to explain how to build positive employee relations. Our topics include **What Is Employee Relations?; Programs for Building and Maintaining Positive Employee Relations; The Ethical Organization; Managing Employee Discipline;** and **Employee Engagement Guide for Managers**.

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

14-1 **Define** *employee relations*.

14-2 **Discuss** at least four methods for managing employee relations.

14-3 **Explain** what is meant by ethical behavior.

14-4 **Explain** what is meant by fair disciplinary practices.

14-5 **Answer** the question, "How do companies become 'Best Companies to Work For'?"

After a worker uprising over pay and work rules at Apple Inc.'s Foxconn iPhone assembly plant in Shenzhen, China, Apple asked the plant's owner to have the Fair Labor Association (FLA) survey the plant's workers. The FLA found "tons of issues."[1] We'll see what they found and what Foxconn's management did to improve the situation.

LEARNING OBJECTIVE 14-1

Define *employee relations*.

What Is Employee Relations?

Anyone who has worked knows that some companies are better to work for than others. Some companies we've touched on in this book—Wegmans, SAS, and Google, for instance—show up repeatedly on "Best Companies to Work For" lists, while others always seem to have labor problems and negative press. This commonsense observation reflects the fact that some companies do have better employee relations than do others.

employee relations
The activity that involves establishing and maintaining the positive employee–employer relationships that contribute to satisfactory productivity, motivation, morale, and discipline, and to maintaining a positive, productive, and cohesive work environment.

Employee relations is the managerial activity that involves establishing and maintaining the positive employee–employer relationships that contribute to satisfactory productivity, motivation, morale, and discipline, and to maintaining a positive, productive, and cohesive work environment.[2] Whether you're recruiting employees, managing union organizing campaigns, or asking employees to work overtime, it obviously makes sense to have employees "on your side." Many employers therefore endeavor to build positive employee relations, on the sensible assumption that doing so beats building negative ones. Managing employee relations is usually assigned to HR, and is a topic that both the SHRM and HRCI exams address.

Employers can do many things to build positive employee relations. Some examples include good training, fair appraisals, and competitive pay and benefits (all of which we discussed in previous chapters). However, most employers also institute special "employee relations programs." These include employee *fair treatment programs*, improving employee relations through improved *communications*, developing employee *recognition/relations* programs, and having fair and predictable *disciplinary* procedures. We'll look at each next.

LEARNING OBJECTIVE 14-2

Discuss at least four methods for managing employee relations.

Programs for Building and Maintaining Positive Employee Relations

We'll begin with how to ensure fair treatment.

Ensuring Fair Treatment

Anyone who has suffered unfair treatment at work knows its effects. It reduces morale, poisons trust, and negatively impacts employee relations and performance.[3] Employees of abusive supervisors are more likely to quit, and to report lower job and life satisfaction and higher stress.[4] The effects on employees are particularly pronounced where the abusive supervisors seem to have support from higher-ups.[5] Even when someone just witnesses abusive supervision—for instance, seeing a coworker abused—it triggers adverse reactions including unethical behavior.[6] Fair treatment is the countervailing force to unfair treatment. At work, **fair treatment** reflects concrete actions such as "employees are treated with respect," and "employees are treated fairly" (see Figure 14-1).[7]

fair treatment
Reflects concrete actions, such as "employees are treated with respect," and "employees are treated fairly."

There are many reasons why managers should be fair. The golden rule is one. What may not be so obvious is that unfairness can hurt the company. For example, victims of unfairness exhibit more workplace deviance, such as sabotage.[8] Victims of unfairness also suffer a range of ill effects including poor health, stress, and psychological conditions.[9] Unfairness leads to increased tensions between employees and their families, partners, and teammates.[10] Abusive supervisors undermine their subordinates' effectiveness and may prompt them to act destructively.[11] Witnessing disrespectful behavior in the morning contaminated employees' perceptions all day, making even innocent interactions seem rude.[12] The unfairness needn't be brutal. Even workplace incivility leads to stress, absenteeism, turnover, and reduced performance.[13] On the other hand, employees' perceptions of fairness relate *positively* to employee commitment; job involvement; satisfaction with the company, job, and leader; and organizational citizenship behaviors; and *negatively* to employees' turnover intentions.[14]

The employer is responsible for ensuring that it treats its employees fairly and with respect. Techniques for minimizing unfairness discussed in previous chapters include hire competent employees and supervisors, ensure equitable pay, have fair performance appraisal systems, and have policies requiring fair treatment. *Communications systems*

FIGURE 14-1 Perceptions of Fair Interpersonal Treatment Scale

Source: "The Perceptions of Their Interpersonal Treatment Scale: Development and Validation of a Measure of Interpersonal Treatment in the Workplace" by Michelle A. Donovan, from *Journal of Applied Psychology* 83, no. 5 (1998).

What is your organization like most of the time? Circle yes if the item describes your organization, No if it does not describe your organization, and ? if you cannot decide.

IN THIS ORGANIZATION:

1. Employees are praised for good work	Yes	?	No
2. Supervisors yell at employees (R)	Yes	?	No
3. Supervisors play favorites (R)	Yes	?	No
4. Employees are trusted	Yes	?	No
5. Employees' complaints are dealt with effectively	Yes	?	No
6. Employees are treated like children (R)	Yes	?	No
7. Employees are treated with respect	Yes	?	No
8. Employees' question and problems are responded to quickly	Yes	?	No
9. Employees are lied to (R)	Yes	?	No
10. Employees' suggestions are ignored (R)	Yes	?	No
11. Supervisors swear at employees (R)	Yes	?	No
12. Employees' hard work is appreciated	Yes	?	No
13. Supervisors threaten to fire or lay off employees (R)	Yes	?	No
14. Employees are treated fairly	Yes	?	No
15. Coworkers help each other out	Yes	?	No
16. Coworkers argue with each other (R)	Yes	?	No
17. Coworkers put each other down (R)	Yes	?	No
18. Coworkers treat each other with respect	Yes	?	No

Note: R = the item is reverse scored

(such as periodic attitude surveys), and *disciplinary appeals* programs (both discussed in this chapter) also reduce unfairness. Employees don't view all fairness efforts equally. Efforts that they view as sincere carry more weight.[15]

procedural justice
Refers to just procedures in the allocation of rewards or discipline, in terms of the actual procedures being evenhanded and fair.

distributive justice
Refers to a system of distributing rewards and discipline in which the actual results or outcomes are evenhanded and fair.

RESEARCH INSIGHT A study illustrates the effects of unfairness. College instructors first completed surveys concerning the extent to which they saw their colleges as treating them with *procedural* and *distributive* justice. (**Procedural justice** refers to justice in the allocation of rewards or discipline, in terms of the *procedures* being evenhanded and fair; **distributive justice** refers to a system for distributing rewards and discipline in which *the actual results* or outcomes are evenhanded and fair.) Procedural justice items included, for example, "In general, the department/college's procedures allow for requests for clarification or for additional information about a decision." Distributive justice items included, "I am fairly rewarded considering the responsibilities I have."

Then the instructors completed organizational commitment questionnaires, with items such as "I am proud to tell others that I am part of this department/college." Their students then completed surveys, with items such as "The instructor was sympathetic to my needs," and "The instructor treated me fairly."

The results were impressive. Instructors who perceived high distributive and procedural justice were more committed. Furthermore, these instructors' students reported higher levels of instructor effort, prosocial behaviors, and fairness, and had more positive reactions to their instructors.[16] So in this case, treating some professors badly backfired on the university. Treating others fairly produced improved employee commitment and results.

The accompanying Strategic Context discussion shows how Foxconn in China improved the fairness with which it treated employees.

The Strategic Context: A New HR Strategy at the Foxconn Plant in Shenzhen, China

The phrase *social responsibility* may trigger images of charitable contributions, but it actually refers to much more. For example, it refers to the honesty of the company's

ads; to the quality of the parts it builds into its products; and to the honesty, ethics, fairness, and "rightness" of its dealings with customers, suppliers, and employees.

The basic question in social responsibility is whether the company is serving all its constituencies (or "stakeholders") fairly and honestly. Historically, corporate social responsibility (CSR) has referred to the extent to which companies should and do channel resources toward improving one or more segments of society other than the firm's owners or stockholders.[17] To paraphrase SHRM, **corporate social responsibility** (increasingly referred to as *Corporate Responsibility*—CR)[18] represents the company's commitment to operate ethically, and to contribute to economic development while improving the quality of life of its workforce and their families and of the local and global community.[19]

corporate social responsibility
Represents the company's commitment to operate ethically, and to contribute to economic development while improving the quality of life of its workforce and their families and of the local and global community.

A worker uprising at Apple's Foxconn iPhone assembly plant in Shenzhen, China, illustrates what can happen if attention to social responsibility perhaps lags for a time. Producing quality products as efficiently as possible was long this plant's strategy. However, after the uprising over pay and work rules, Apple asked the plant's owner to have the Fair Labor Association (FLA) survey the workers. It found "tons of issues."[20] For example, employees faced "overly strict" product-quality demands: "Every job is tagged to time, there are targets on how many things must be completed within an hour," said one worker there. "In this environment, many people cannot take it."[21] Heavy overtime work and holiday work were other examples.

To foster the improved behaviors that the plant's performance required, Hon Hai, the Foxconn plant's owner, tweaked its efficiency-first strategy and changed its plant human resource strategy and practices. It made 284 changes altogether, including raising salaries and cutting mandatory overtime.[22] The changes show that fair treatment and social responsibility are global obligations.

Bullying and Victimization

Some workplace unfairness is blatant. Bullying and victimization—singling out someone to harass and mistreat—is a serious problem. For example, surveys report that 45% to 61% of U.S. bosses exhibit bullying behaviors.[23] Victims will often suffer in silence in fear of retribution, although the bullying may be making them physically ill.[24] The U.S. government (www.stopbullying.gov) says most would agree that bullying involves three things:

- ***Imbalance of power.*** People who bully use their power to control or harm, and the people being bullied may have a hard time defending themselves.
- ***Intent to cause harm.*** Actions done by accident are not bullying; the person bullying has a goal to cause harm.
- ***Repetition.*** Incidents of bullying happen to the same person over and over by the same person or group.

And that bullying can take many forms, such as:

- ***Verbal:*** name-calling, teasing
- ***Social:*** spreading rumors, leaving people out on purpose, breaking up friendships
- ***Physical:*** hitting, punching, shoving
- ***Cyberbullying:*** using the Internet, mobile phones, or other digital technologies to harm others

Undoubtedly, the perpetrator is to blame for bullying. However research suggests some behaviors can make it more likely someone will suffer bullying.[25] These behaviors include appearing to be more submissive, anxious, cautious, and sensitive; showing more aggression; and exhibiting "low self-determination" (leaving it to others to make decisions for them). Furthermore, high performers can make colleagues envious, and thereby attract bullying.[26]

How to address bullying? Using team-building training, social gatherings, and interteam competition to build team cohesion can reduce envy and victimization.[27] Other suggestions include identify bullying through morale surveys, train employees to recognize bullying, and have and enforce a code of conduct.[28]

Beyond ensuring fair treatment, employers also rely on various communications programs for cultivating better employee relations.

Improving Employee Relations through Communications Programs

Employers use a variety of means to communicate with employees, both to keep employees informed, and to take the pulse of what employees are thinking. To paraphrase one writer, doing so is vital for employers who want to short-circuit inequitable treatment and maintain positive employee relations.[29]

Communications tools range from simple to more complex. One university's website emphasized its *open-door policy* to encourage communication between employees and managers, an *employee handbook* covering basic employment information, as well as abundant *e-mail* and *hard copy notes and memos*.[30] The Great Places to Work Institute suggests weekly one-on-one meetings with employees, quick daily boss–employees "huddles," and monthly town halls.[31] Other tools include hosting employee *focus groups*, making available *ombudspersons* and *suggestion boxes*, and implementing telephone, messaging, and web-based *hotlines*. (Sometimes a vendor sets up the hotlines for the employer; it also receives the employees' comments, summarizes them, and provides ongoing feedback to the employer about employees' concerns.) *Exit interviews*, discussed in an earlier chapter, enable the manager to sample the quality of employee relations and identify potential problem.[32] Managers also use "management by walking around" to informally ask employees "how things are going." Wegmans holds at least two "open-door days" per year. Employees can individually discuss any topic with store managers, HR, or executives.[33] Hilton modified its interim performance appraisal "check-ins."[34] Instead of just focusing on the employee's performance, managers now use these to also get a better feel for their subordinates' well-being.

USING ORGANIZATIONAL CLIMATE SURVEYS Many employers use attitude, morale, or *climate surveys* to support employee relations efforts. They use these to "take the pulse" of their employees' attitudes toward organizational issues including leadership, safety, role clarity, fairness, and pay; they thereby get a sense of whether their employee relations need improvement. The dividing lines between attitude surveys, satisfaction or morale surveys, and climate surveys are somewhat arbitrary. We can define **organizational climate** as the perceptions employees have of and the meaning they attach to a company's psychological environment, in terms of dimensions such as concern for employee well-being, supervisory behavior, political behaviors, and rewards.[35]

organizational climate
The perceptions a company's employees share about the firm's psychological environment, for instance, in terms of things like concern for employees' well-being, supervisory behavior, flexibility, appreciation, ethics, empowerment, political behaviors, and rewards.

Many employers use online surveys from organizations such as the Great Places to Work Institute.[36] These cover items such as, Are you proud to work here? Google conducts an annual "Googlegeist" survey of its employees. This measures things such as employees' willingness to leave.[37] Other surveys are available off the shelf. For instance, one SHRM sample survey's questions include, "Overall, how satisfied are you with your supervisor?" and, "Overall, how satisfied are you with your job?"[38] Amazon surveys selected employees daily, with items such as, Has your manager thanked you in the past week? Receptiviti[39] supplies software that reviews employees' work e-mail and messaging systems. It searches for words (such as multiple uses of "I" rather than "we") that may signal unhappiness. Ford installed smiley face terminals in some workplaces. Employees use them to quickly respond to items such as, "How optimistic are you feeling about your job today?"[40]

The New Normal box addresses new communications tools remote employees use to stay in touch.

THE NEW NORMAL

Meeting at Work in a Remote Work World[41]

When employees switched to remote work, in-person interactions obviously diminished. Many people call such interactions the "office watercooler" phenomenon. It's what happens when workers run into each other unexpectedly, and start talking.

These unexpected interactions are useful. Colleagues share updates on projects, for instance. And employees from different areas might open new avenues of communication.

With so many people now working remotely, it was a matter of time until vendors created virtual substitutes for the unplanned "watercooler" meetings.

For example, Doughnut Technologies Inc.[42] provides software that introduces employees to those on other teams, and opens direct messaging channels to them. The aim is to build remote relationships where none previously existed.

Microsoft modified its Teams software, to encourage more "on-site" interaction by remote workers. For example, it added a "raise hands" feature to encourage participation, and virtual whiteboard sticky notes to help remote workers interact. Another vendor created a virtual work space. Each remote employee gets his or her own avatar. They (their avatars) can then sit together at a virtual table and discuss some problem. They can even have private conversations that no one else can hear. ■

Develop Employee Recognition/Relations Programs

In addition to fair treatment and communications programs, companywide employee recognition and award programs improve employee relations. As one example, a trade journal notes how the Murray Supply Co. held a special dinner for all its employees, at which it gave out special awards for things like safe driving, tenure with the company, and branch employee of the year.[43] Employers often distribute such awards with much fanfare at special events such as awards dinners. One SHRM survey found that 76% of organizations surveyed had such employee recognition programs, and another 5% planned to implement one soon.[44]

Recognition and service award programs require planning.[45] For example, starting a *service award program* requires reviewing employee tenure and setting meaningful award periods (1 year, 5 years, etc.). It also requires setting a budget, selecting awards, having a procedure for monitoring what awards to actually award, having a process for giving awards (such as special dinners or staff meetings), and measuring program success. Similarly, starting a *recognition program* requires developing criteria (such as customer service, and cost savings), creating forms and procedures for submitting and reviewing nominations, selecting awards, and having a process for awarding the awards.

There are online tools for automating the employee recognition process. Employees use these to recognize each other's contributions, for instance using peer recognition, spot awards, e-Cards, and incentives.[46] For example Globoforce.com (now part of Workhuman)[47] organized a "Lift" recognition program for JetBlue. Employees nominate colleagues for their everyday contributions, and for outstanding work.[48]

Use Employee Involvement Programs

Employee relations also tend to improve when employees are *involved* with the company in positive ways.

Employers encourage involvement in various ways. Some organize focus groups. A *focus group* is a small sample of employees who are presented with a specific issue and who interactively express their opinions and attitudes on that issue with the group's assigned facilitator. Many employers use *social media* such as the photo-sharing website Pinterest to encourage involvement.[49] One survey found that about half of employers use social media to communicate with employees and to develop a sense of community.[50] For example, Red Door Interactive used a Pinterest-based project it called "San Diego Office Inspiration." This encouraged employees to contribute interior design and decor ideas for its new offices.[51]

suggestion teams
Temporary teams whose members work on specific analytical assignments, such as how to cut costs or raise productivity.

problem-solving teams
Teams that identify and research work processes and develop solutions to work-related problems.

USING EMPLOYEE INVOLVEMENT TEAMS Employers have long used special teams to encourage employee involvement and boost productivity. **Suggestion teams** are temporary teams whose members work on specific analytical assignments, such as how to cut costs or raise productivity. One airline split employees (such as baggage handlers and ground crew) into teams, linking team members via its website for brainstorming and voting on ideas.[52] Semi-permanent **problem-solving teams** research work

quality circle
A special type of formal problem-solving team, usually composed of 6 to 12 specially trained employees who meet once a week to solve problems affecting their work area.

self-managing/self-directed work team
A small (usually 8 to 10 members) group of carefully selected, trained, and empowered employees who basically run themselves with little or no outside supervision, usually for the purpose of accomplishing a specific task or mission.

processes, and develop solutions to work problems.[53] A **quality circle** is a permanent problem-solving team, more popular in the past than now. They are usually composed of 6 to 12 specially trained employees who meet weekly to solve problems affecting their work area.[54] The team gets training in problem-analysis techniques (including basic statistics).

A **self-managing/self-directed work team** is a small (usually 8 to 10 members) group of carefully selected, trained, and empowered employees who supervise themselves with little or no outside supervision, usually for the purpose of accomplishing a specific mission.[55] One classic example is the GE aircraft engine plant in Durham, North Carolina (now part of GE Aviation.) Here employees worked in teams, all of which reported to the factory manager.[56] Teams like these usually function with minimal supervisory oversight. They collectively vote on who could join the team, train each other, and handle quality control, for instance.[57]

USING SUGGESTION SYSTEMS Employee suggestion plans can produce significant savings (and, through involvement and rewards, improve employee relations). For example, one study some years ago of 47 companies concluded that the firms had saved more than $624 million in one year from their suggestion programs; more than 250,000 suggestions were submitted, of which employers adopted over 93,000 ideas.[58] The accompanying HR as a Profit Center feature provides an example.

HR AS A PROFIT CENTER

The Cost-Effective Suggestion System[59]

A Lockheed Martin unit in Oswego, New York, developed its "Cost-Effectiveness Plus" suggestion program to encourage and recognize employees for streamlining processes. With the Cost-Effectiveness Plus program, employees electronically submit their ideas. These are then evaluated and approved by the local manager and the program's coordinator (and by higher management when necessary). This program reportedly saves this facility about $77,000 per implemented idea, or more than $100 million each year.

Today's suggestion systems are more sophisticated than the "suggestion boxes" of years ago.[60] The main improvements are in how the employer formalizes and communicates the suggestion process. The essential elements of an effective employee suggestion system include the following:[61]

✓ Senior staff support
✓ A simple, easy process for submitting suggestions
✓ A strong process for evaluating and implementing suggestions
✓ An effective program for publicizing and communicating the program
✓ A program focus on key organizational goals ■

Employee Relations and Gig Workers[62]

Employers can take steps to improve employee relations with gig workers.

First understand that gig workers each come to their jobs with their own needs. For example, one researcher interviewed Uber and Lyft drivers. He found that how drivers reacted to things like pay cuts depended on why they were driving. Some were driving mostly for social interaction and to relax from their full-time jobs. (One psychotherapist wasn't too upset by Uber's pay cuts. He was just happy to unwind from 40 hours per week of counseling people.) On the other hand, drivers who *were* financially dependent on driving were quite upset by the cuts.

In any case, here are suggestions for improving gig-worker employee relations:

- Don't treat gig workers like they're disposable. Even if it's a short gig, communicate with the worker, and get to know him or her. Recognize their contributions.
- Make signing on as frictionless as possible. Many gig workers are looking for part-time flexible gigs, and want work, not paperwork.

- Research shows that most employers put little time into onboarding gig workers, which is a mistake: even an abbreviated onboarding process is better than none. Give them a brief background on your company and/or project, and make them feel part (albeit an independent-contractor part) of your business.
- It is important legally to make it clear that they are independent contractors. However, to the extent possible, share company news with and seek feedback from your gig workers. Include them in intracompany communications and to the extent possible in company social and educational events.

LEARNING OBJECTIVE 14-3

Explain what is meant by ethical behavior.

The Ethical Organization

People face ethical choices every day. Is it wrong to use a company credit card for personal purchases? Is a $50 gift to a client unacceptable?

Most of those reading this book rightfully view themselves as ethical people, so why include ethics in a human resource management book? For three reasons: First, ethics is not theoretical. Instead, it greases the wheels that make businesses work. Managers who promise raises but don't deliver, salespeople who say "The order's coming" when it's not, production managers who take kickbacks from suppliers—they all corrode the trust that day-to-day business transactions rely on.

Second, it is hard to even imagine an *un*ethical company with good employee relations.

Third, many ethical predicaments involve human resource management.[63] One survey found that 6 of the 10 most serious ethical work issues—workplace safety, employee records security, employee theft, affirmative action, comparable work, and employee privacy rights—were HR-related.[64]

ethics
The study of standards of conduct and moral judgment; also the standards of right conduct.

Ethics are "the principles of conduct governing an individual or a group"—the principles people use to decide what their conduct should be.[65] Of course, not all conduct involves ethics.[66] For example, buying a pencil usually isn't an ethical decision. Instead, ethical decisions are those rooted in *morality*. Morality refers to society's accepted standards of behavior. To be more precise, morality (and therefore ethical decisions) always involves the most fundamental questions of what is right and wrong, such as stealing, murder, and how to treat other people.

Ethics and Employee Rights

Societies don't rely just on employers' ethics or a sense of fairness or morality to ensure that they do what's right. Societies also institute laws, and procedures for enforcing these laws. These laws lay out what employers can and cannot do, for instance, in terms of discriminating based on race. In so doing, these laws also carve out explicit rights for employees. For example, Title VII of the Civil Rights Act gives employees the right to bring legal charges against an employer who they believe discriminated against them due to race. And, the Fair Labor Standards Act gave employees the right to a minimum wage and overtime pay. The bottom line is that while ethics, fairness, and morality help govern how employers treat their employees, the enforceable rights embedded in employment law also govern what employers and employees can do.

What Shapes Ethical Behavior at Work?

Why do people do bad things? It's complicated. However, one review of over 30 years of ethics research concluded that three factors combine to determine the ethical choices we make.[67] The authors titled their paper "Bad Apples, Bad Cases, and Bad Barrels." This title highlighted their conclusion that when

> "Bad apples" (people who are inclined to make unethical choices), must deal with "Bad cases" (ethical situations that are ripe for unethical choices), while working in "Bad barrels" (company environments that foster or condone unethical choices), . . . then people tend to act unethically.

Here's a closer look at what they found.

THE PERSON (WHAT MAKES BAD APPLES?) First, because people bring to their jobs their own ideas of what is morally right and wrong, each person must shoulder much of the credit (or blame) for his or her ethical choices.

For example, researchers surveyed CEOs to study their intentions to engage in two questionable practices: soliciting a competitor's technological secrets, and making illegal payments to foreign officials. The researchers concluded that the CEOs' personal predispositions more strongly affected their decisions than did outside pressures or characteristics of their firms.[68] The most principled people, with the highest level of "cognitive moral development," think through the implications of their decisions and apply ethical principles. They have "moral attentiveness," and are aware of the ethical dilemma at hand.[69]

WHICH ETHICAL SITUATIONS MAKE FOR ETHICALLY DANGEROUS SITUATIONS (BAD CASES)? It's not just the person but the situation that's important. For example, the researchers found that "smaller" ethical dilemmas prompt more bad choices. What determines "small"? Basically, how much harm can befall victims of the choice, or the number of people potentially affected. People seemed more likely to "do the wrong thing" in "less serious" situations, in other words. That obviously doesn't mean that some people don't do bad things when huge consequences are involved; it just means that people cut more ethical corners on small things. The problem is that one thing leads to another; people start by doing small bad things and then "graduate" to larger ones.[70]

WHAT ARE THE "BAD BARRELS"?—THE OUTSIDE FACTORS THAT MOLD ETHICAL CHOICES Finally, the study found that some companies produce more poisonous social environments than do others; these bad environments in turn encourage unethical choices.[71] For example, companies that promoted an "everyone for him- or herself" culture were more likely to suffer unethical choices. Those that encouraged employees to consider the well-being of everyone had more ethical choices. Most important, companies whose managers put in place "a strong ethical culture that clearly communicates the range of acceptable and unacceptable behavior" suffered fewer unethical decisions.[72]

How Any Manager Can Create a More Ethical Environment

We can translate findings like these into the following specific steps managers can take to create more ethical environments.

REDUCE JOB-RELATED PRESSURES If people did unethical things at work solely for personal gain or because they're "bad people," it might be understandable (though inexcusable). The scary thing is that it's often not personal interests but the pressures of the job. As one former executive said at his trial, "I took these actions, knowing they were wrong, in a misguided attempt to preserve the company to allow it to withstand what I believed were temporary financial difficulties."[73] Some call this "bounded ethicality"; in other words, making moral decisions while dealing with pressing constraints (such as pushy bosses) is challenging.[74]

Studies illustrate the problem. One asked employees to list their reasons for doing unethical things at work.[75] For most of these employees, "meeting schedule pressures," "meeting overly aggressive financial or business objectives," and "helping the company survive" were the three top causes. "Advancing my own career or financial interests" ranked about last.[76] Another study found that having a boss with a "bottom-line mentality" may motivate performance, but may trigger ethical lapses.[77] Similarly, people with impossibly difficult goals are more likely to make unethical choices.[78] And, unfortunately, some leaders condone unethical employee behavior that helps the company.[79] The solution is to reduce such "outside" pressures, perhaps starting by assigning doable goals.

MAKE IT CLEAR WHAT'S OKAY AND NOT OKAY[80] If your company has an ethics code, managers should make it clear they take it seriously; if there is no code, show by your own actions what's acceptable and not acceptable. For example Patagonia employees are well aware of its mission statement, to "build the best product" and "cause no unnecessary harm."[81]

MODEL THE DESIRED BEHAVIOR ("WALK THE TALK") It's hard to resist even subtle pressure from a boss. In one study employees rated their supervisors' ethical behavior, using items such as "my supervisor disciplines employees who violate ethical standards."[82] The supervisor's ethical leadership affected employees' ethical behavior. It did so by influencing how employees sized up the ethical decisions they had to make.

In another study, "the level of misconduct at work dropped dramatically when employees said their supervisors exhibited ethical behavior."[83] Examples of how supervisors lead subordinates astray include the following:

- Tell them to do "whatever is necessary" to achieve results.
- Look the other way when wrongdoing occurs.
- Take credit for others' work or shift blame.[84]

Put another way, managers must walk the talk—not just pay lip service to ethics but behave ethically. Some managers urge employees to apply a quick "ethics test" to evaluate whether what they're about to do fits the company's code of conduct. For example, one company told employees to ask:

- Is the action legal?
- Is it right?
- Who will be affected?
- Does it fit our company's values?
- How will it "feel" afterward?
- How will it look in the newspaper?
- Will it reflect poorly on the company?[85]

REINFORCE THE DESIRED BEHAVIOR, NOT THE UNDESIRABLE BEHAVIOR[86] People tend to do what they get positive reinforcement for, and gradually stop doing what's not reinforced. Do not inadvertently reinforce unethical behavior (nor punish ethical behavior).

TAKE IT SERIOUSLY When students complained of inappropriate behavior by an osteopathic medical school administrator, university administrators put a letter in his file and got his agreement to change. It transpired that they should have taken stronger action. The moral is, investigate ethics-related accusations, and vigorously correct the problem.

How Human Resource Managers Can Create More Ethical Environments

There are also steps human resource managers can take.

INSTITUTE ETHICS POLICIES AND CODES Employers use ethics policies and codes to signal that their companies are serious about ethics. For example, IBM's code of ethics says, in part:

> A conflict of interest occurs when you advance a personal interest at the expense of IBM's interests. Remember: a personal interest can be a direct benefit to you or a benefit to a family member or close friend. It is up to you to avoid any activity that creates, or appears to create, a conflict between your personal interests and the interests of IBM. Disclose to your manager any actual or potential conflict of interest, and discuss possible ways to mitigate or eliminate the conflict. Your primary responsibility is to IBM, and any conflict must be resolved in IBM's favor.[87]

ENFORCE THE RULES Codifying rules without enforcing them is useless. To paraphrase one study, managers' statements can reduce unethical behavior on the part of employees, but knowing that behavior is actually monitored and enforced has the biggest impact.[88] *Ethics audits* address topics like conflicts of interest, giving and receiving gifts, and employee discrimination.[89] One study found that fraud controls such as

hotlines, surprise audits, fraud training for employees, and mandatory vacations can each reduce internal theft by around 50%.[90] Many employers, including Lockheed Martin have chief ethics officers.[91]

ENCOURAGE WHISTLEBLOWERS Some companies encourage employees to use hotlines and other means to "blow the whistle" on the company when they discover fraud. Several U.S. laws, including Dodd–Frank, the False Claims Act, the U.S. Financial Institutions Reform, Recovery, and Enforcement Act, and U.S. federal sentencing guidelines address whistleblowing.[92] Under the U.S. Securities and Exchange Commission's whistleblower program, awards are not limited to company employees. Consultants, independent contractors, vendors, and sometimes audit and compliance personnel are also eligible.[93]

organizational culture
The characteristic values, traditions, and behaviors a company's employees share.

FOSTER AN ETHICAL CULTURE[94] Several years ago Uber faced multiple harassment claims, in part due to the company's uninhibited culture.[95] **Organizational culture** is the "characteristic values, traditions, and behaviors a company's employees share." A *value* is a basic belief about what is right or wrong, or about what you should or shouldn't do. ("Honesty is the best policy" would be a value.)

Managing people's behavior depends on shaping the values they use as behavioral guides. For example, if management really believes "honesty is the best policy," its actions should reflect this. Managers therefore should think through how to send the right signals to their employees—in other words, create the right culture. Doing so includes:

- ***Choose as leaders*** people who reflect the culture you're trying to achieve.[96]
- ***Clarify expectations.*** Make it clear what values you want subordinates to adhere to. For example, IBM's ethics statement shows the company takes ethics seriously.
- ***Use signs and symbols.*** *Symbolism*—what the manager actually does—ultimately does the most to create and sustain the company's culture. As we said earlier, managers should "walk the talk." They can't say "don't falsify the financials" and then do so themselves.
- ***Provide physical support.*** The physical signs of the employer's values—its incentive plan, appraisal system, and disciplinary procedures, for instance—send strong signals regarding what employees should and should not do. For example, do promotions reward ethical behavior or penalize it?[97]
- ***Interact frequently*** with employees to explain the values that are important.[98]

HIRE RIGHT Perhaps the most straightforward way an HR manager can build an ethical organization is to attract and hire ethical people. Start with recruitment ads that highlight your firm's commitment to ethics. Then screen carefully. An integrity test "is a specific type of personality test designed to assess an applicant's tendency to be honest, trustworthy, and dependable."[99] Use interview questions (such as "Have you ever observed someone doing something dishonest at work? What did you do?").[100] Check backgrounds thoroughly.

Also treat job applicants fairly. "If prospective employees perceive that the hiring process does not treat people fairly, they may assume that ethical behavior is not important in the company."[101] What exactly to do?

- Applicants tend to view the *formal procedure* (such as the interview) as fair to the extent that it tests job-related criteria and provides an opportunity to demonstrate competence.
- Applicants expect respect. *Fair interpersonal treatment* reflects things like the propriety of the questions, the interviewer's politeness, and the degree of two-way communication.
- Applicants see a selection system as fair to the extent that the employer provides *useful feedback* about the candidate's performance.[102]

USE ETHICS TRAINING Ethics training is basically mandatory. Since 1991, federal sentencing guidelines have prescribed reduced penalties for employers accused of misconduct who implement codes of conduct and ethics training.[103] The Sarbanes–Oxley Act of 2002 makes ethics training even more important.

Ethics training involves showing employees how to recognize ethical dilemmas, how to apply codes of conduct to resolve problems, and how to use personnel activities like discipline in ethical ways.[104] The training should illustrate the moral underpinnings of the ethical choice, and the company's commitment to integrity and ethics. Include participation by top managers to emphasize that commitment.[105]

A program at Lockheed Martin illustrates one such effort.[106] Lockheed Martin's CEO first trains immediate subordinates. They in turn train their subordinates. Trainers first review Lockheed Martin's business conduct code. The program then prepares employees to recognize and react to ethics-laden situations. To do this, trainees review videos of actual ethics cases from the company's Ethics Office. Then they discuss the cases and how to react to them.

SURVEY EMPLOYEES Many employers use brief anonymous employee surveys to help keep ethics on track.[107] One contained three questions: First, "In the past quarter, have you observed any of the following? Please check all that apply (conflict of interest, sexual harassment, bribes, accounting irregularities, antitrust violations, theft)." Second, "If you observed questionable conduct, did you report it? Please answer yes or no for each." Finally, "If you noted that you didn't report the questionable conduct, why not"?

USE REWARDS AND DISCIPLINE Employees expect employers to punish unethical conduct and to reward ethical conduct (including by executives, not just underlings).[108] The code of conduct generally describes what employees should and should not do ethically.[109] Employers often include their code of conduct policies in the employee manual.[110]

INSTITUTE EMPLOYEE PRIVACY POLICIES[111] Although many Internet users willingly share personal information as the price of staying in touch, privacy still matters at work.[112] Familiar employee privacy violations include *intrusion* (such as locker room and e-mail surveillance), *publication* of private matters, and *disclosure* of medical records.[113] In practice, background checks, monitoring off-duty conduct and lifestyle, drug testing, workplace searches, and workplace monitoring trigger most privacy violations.[114] Such activities have legitimate business purposes; however, they can be abused—as when improper disclosure leads to inexcusable embarrassment.[115] Many employers therefore include privacy policies in their ethics programs. For example, Ceridian's Privacy Policy website starts with "Ceridian is committed to protecting the privacy of our employees, our customers, and their employees."[116]

HR Tools for Line Managers and Small Businesses: Small Business Ethics

When people think of unethical corporate behavior, big companies come to mind, because they're usually in the headlines. Yet studies show that small enterprises are prone to the same unethical behaviors as big ones.

For example, one study of 20 small to midsize firms found that bribery, corrupt dealings, and a general tone of dishonesty were all "business as usual" at many of these firms.[117] When doing business abroad, one U.S. business kept its hands "clean" by partnering with a local firm. The latter did the dirty work, for example, the local bribes, while the U.S. firm's managers looked the other way.

Smaller firms should be alert to unethical behavior. They don't have the resources for ethics officers, ethics hotlines, or the ethics training that big firms have. Furthermore, having an unethical accountant in a billion-dollar firm embezzle $10 million is a problem. Having the bookkeeper of a $10 million firm abscond with $1 million could be the end.

Small business owners can take several steps. First, *size up your company's current ethics-related activities*.[118] Even a self-audit based on guidelines like those in this chapter (having an ethics code, ethics training, controls to monitor ethical

behavior, and so on) are worthwhile. Second, *create a code of conduct* (Googling "code of conduct" reveals thousands of examples), and show you take it seriously. Third, *train your people*. Training needn't be complicated. For example, one expert suggests having your managers develop scenarios, relevant to your business, illustrating which behaviors are ethical and which are not; then meet to discuss these. Fourth, make it easier to *solicit feedback* from your employees, to report unethical behavior. ("Open door" policies and suggestion boxes are examples.) Finally, *walk the talk*. In a small business, the owner is so visible that employees will take their ethical cues from him or her.

Know Your Employment Law: Electronic Monitoring

Although electronic monitoring raises both ethical and legal questions, it is widespread.[119] Recent studies found that over 80% of large companies monitor employee email, Internet or phones.[120] In another study, 96% of surveyed companies block access to adult websites, 61% to game sites.[121] (A court found one employer liable to victims when an employee used his company computer at work to distribute child pornography.)[122] Some check working employees' personal blogs or Facebook sites (where doing so is not prohibited by local laws) to see if they're publicizing work-related matters.[123] Smart devices and tools like thumb drives prompt more employers to monitor. Thumb drives can carry off huge amounts of corporate data. And, disgruntled employees have used their companies' cloud services to undermine their computer systems.[124] The Hartford Insurance company gives clients guidelines for determining how to monitor employees' social media while they're at work. For example, be specific about what is *not* permitted online, such as employees posting company trade secrets, or managers preventing comments in such a way as to interfere with employees exercising collective bargaining rights.[125]

Yet monitoring can also boost profits. When one employer noticed high employee overtime claims, it installed monitoring software. It discovered employees spent hours shopping online instead of working. Computer monitoring usually involves loading software directly. It then logs keystrokes, screenshots, and URLs visited by individuals.[126]

Electronic Communications Privacy Act (ECPA)
The ECPA is a federal law intended to help restrict interception and monitoring of oral and wire communications.

There are at least three legal restrictions on workplace monitoring.[127] There is the federal **Electronic Communications Privacy Act (ECPA)**, various *state privacy laws*, and *common-law protections*. (The latter include protections that evolved from court decisions, such as decisions against defaming employees by publicizing highly personal matters about them). The ECPA is intended to help restrict interception and monitoring of oral and wire communications. A number of states have similar laws. The ECPA contains two exceptions. The "business purpose exception" permits employers to monitor communications if they can show a legitimate business reason for doing so. The second, "consent exception," lets employers monitor communications if they have their employees' consent to do so.[128]

More employers are using iris scanning to verify employee identity.

Rzrimoz/Shutterstock

Electronic eavesdropping is legal—up to a point. For example, federal law and most state laws allow employers to monitor employees' phone calls in the ordinary course of business. However, they must stop listening when it becomes clear the conversation is personal. You can also intercept e-mail to protect the property rights of the e-mail provider. Many employees assume that their messages using the company's e-mail system are open to review, but that e-mails they send via the employer's system but using personal e-mail like Gmail aren't. However, that's not necessarily true.

To be safe, employers issue e-mail and online service usage policies. These warn employees that their systems should be used for business only. Employers also have employees sign e-mail and telephone monitoring acknowledgment statements like that in Figure 14-2.

FIGURE 14-2 Sample E-Mail Monitoring Acknowledgment Statement

I understand that XYZ Company periodically monitors any e-mail communications created, sent, or retrieved using this company's e-mail system. Therefore, I understand that my e-mail communications may be read by individuals other than the intended recipient. I also understand that XYZ Company periodically monitors telephone communications, for example to improve customer service quality.

Signature Date

Print Name Department

An attorney should review the company's e-mail policy. At a minimum, make it clear that employees should have no expectation of privacy in their e-mail and Internet usage.[129] Also emphasize that all messages sent and received on the employer's e-mail system are company property and not confidential.[130] Employee monitoring best practices include: don't monitor in nonwork areas, do be consistent in how you monitor employees, and get legal advice before installing a monitoring system.[131]

Video workplace monitoring requires more caution. Continuous video surveillance of employees in an office setting may not be a problem. However, video monitoring in bathrooms or lockers is illegal, as would be recording employee union activity.[132]

BIOMETRICS Monitoring goes beyond work stations and phones. One hospital uses biometric scanners to ensure that employees who clock in really are who they say they are. The Federal Aviation Administration uses iris scanning to control employees' access to their network information systems. One restaurant monitors most everything servers do, tracking every ticket, dish, and drink that they process.[133] (This makes it easier to track employee theft, but also helps identify conscientious servers). The British grocer Tesco has some distribution center employees wear armbands that track how quickly they're unloading and scanning goods.[134]

LEARNING OBJECTIVE 14-4

Explain what is meant by fair disciplinary practices.

Managing Employee Discipline

The purpose of *discipline* is to encourage employees to behave sensibly at work (where *sensible* means adhering to rules and regulations). Discipline is required when an employee violates a rule.[135]

Proper disciplinary procedures are important. For one thing, positive employee relations require trust, and few personnel actions undermine trust as does arbitrary discipline. Legal concerns are also important. One study surveyed 45 published arbitration awards in which tardiness had triggered discipline and/or discharge. When arbitrators overturned employers' decisions, it was usually due to inadequate disciplinary procedures—for example, the employer failed to clarify what "tardy" meant. Unfair disciplinary procedures can backfire in other ways. For example, they can trigger retaliatory employee misbehavior. They may also lead to a discrimination complaint; equity and fairness are therefore essential.[136]

The Three Pillars of Fair Discipline

Disciplining employees is often unavoidable, but any such discipline should be rooted in the need to be fair. The manager builds a fair discipline process on three pillars: rules and regulations, a system of progressive penalties, and an appeals process.[137]

RULES AND REGULATIONS An acceptable disciplinary process begins with a set of clear disciplinary rules and regulations. The rules should cover problems such as theft, destruction of company property, drinking on the job, and insubordination. Examples of rules include:

> ***Poor performance is not acceptable.*** Each employee is expected to perform his or her work properly and efficiently and to meet established standards of quality.
>
> ***Alcohol and drugs do not mix with work.*** The use of either during working hours and reporting for work under the influence of either are both strictly prohibited.

The purpose of the rules is to inform employees ahead of time what is and is not acceptable behavior. Tell employees, preferably in writing, what is not permitted. The employee handbook should contain the rules and regulations.

PROGRESSIVE PENALTIES A system of progressive penalties is the second pillar of effective discipline. The severity of the penalty usually depends on the offense and the number of times it has occurred. For example, most companies issue warnings for the first unexcused lateness. However, for a fourth offense, discharge is the usual disciplinary action.

APPEALS PROCESS Third, the aim of an appeals process is to ensure that supervisors mete out discipline fairly. FedEx's *guaranteed fair treatment* multistep program illustrates this. We'll look at it in a moment.

An appeals process is essential but is no panacea. Often employers can mitigate the effects of unfair discipline by catching it during an appeal. However, some supervisory behavior may be impossible to overcome. For example, behaviors that attack the employee's personal and/or social identity are difficult to remedy.[138] Remember that punishment is particularly objectionable when it seems motivated by revenge.[139]

DIVERSITY COUNTS

Comparing Males and Females in a Discipline Situation

A classic study about 20 years ago concluded that when a woman doesn't act the way other men and women expect she should act, they tend to treat her more harshly than they would a man.[140]

The study involved 360 graduate and undergraduate business school students. They reviewed a labor arbitration case. The case involved two employees, one male and one female, with similar work records and tenure with their employers. Both were discharged for violation of company rules related to alcohol and drugs. The case portrays one worker's behavior as a more serious breach of company rules: The more culpable worker (a male in half the study and a female in the other half) had brought the intoxicant to work. The students had to express their agreement with two alternative approaches (tough or not-so-tough) to settling the dispute that arose after the discharge.

Both the male and female students recommended harsher treatment for the "culpable" female employee in the case than they did for the "culpable" man. Managers seeking to avoid the same bias would do well to keep the researchers' conclusions in mind, namely that, "women, as decision makers, appear to be as willing as men to impose harsher discipline on women than upon men." ■

How to Discipline an Employee

Even if you're a manager in a *Fortune* 500 company, you may find yourself without company guidelines when you have to discipline an employee. An error could trigger a costly appeal, or even litigation. To help head off errors, fair discipline guidelines would include:[141]

- Make sure the evidence supports the charge of employee wrongdoing.
- Adequately warn the employee of the disciplinary consequences of his or her alleged misconduct. Have the employee sign a form as in Figure 14-3.
- The rule that allegedly was violated should be "reasonably related" to the facility's efficient and safe operation.
- Objectively investigate the matter before disciplining.
- The investigation should produce substantial evidence of misconduct.
- Apply applicable rules, orders, or penalties *without discrimination*.
- The U.S. Constitution contains the *due process* clause, specifically that no one shall be "deprived of life, liberty or property without due process of law [by the government]."[142] Most basically, due process means that anyone accused or suspected deserves to have his or her case reviewed through a fair process. For example, did the person have a chance to defend himself or herself? Was there an appeals process?
- Maintain the employee's right to counsel. For example, all union employees generally have the right to bring a representative to a disciplinary interview.
- Don't rob your subordinate of his or her dignity, for instance by disciplining in public.
- Listen to what the person has to say.
- Remember that the burden of proof is on you. In U.S. society, a person is considered innocent until proven guilty.
- Get the facts. Don't base your decision on hearsay evidence or on your general impression.
- Don't act while angry.

FIGURE 14-3 Report of Employee Discipline

Apex Telecommunications Corporation
Report of Disciplinary Action and Warning

Employee's Name_____
Employee's Department_____
Date of Misconduct_____ Today's Date_____

Description of incident and misconduct (including witnesses, if any)_____

Witnesses to incident_____

If the misconduct violated an Apex Co. policy or rule, state the policy or rule_____

Employee's explanation for misconduct, if any_____

Disciplinary action taken, if any_____

The employee was warned today that if misconduct such as this reoccurs at any time during the next_____ weeks, he or she may be subject to the following disciplinary action_____

Supervisor's signature

Employee's signature

Print name

Print name

Discipline without Punishment

Traditional discipline processes have two main drawbacks. First, no one likes being punished. Second, punishment may gain short-term compliance, but not long-term cooperation.

Discipline without punishment (or alternative or nonpunitive discipline) aims to avoid these drawbacks by reducing the punitive nature of the discipline. Steps include:[143]

1. ***Issue an oral reminder for a first infraction.*** Have a private discussion with the employee.
2. ***Should another incident arise within 6 weeks, issue a formal written reminder, and place a copy in the employee's personnel file.*** Also, hold a second private discussion with the employee.
3. ***Give a paid, one-day "decision-making leave."*** If another incident occurs in the next 6 weeks or so, tell the employee to take a 1-day leave with pay, and to consider whether they want to abide by the rules. When the employee returns to work, the person meets with you and gives you a decision.
4. ***If no further incidents occur in the next year or so, purge the 1-day paid suspension from the person's file.*** If the behavior is repeated, the next step is dismissal.

The process would not apply to exceptional circumstances. Criminal behavior or in-plant fighting might be grounds for immediate dismissal, for instance.

LEARNING OBJECTIVE 14-5

Answer the question, "How do companies become 'Best Companies to Work For'?"

Employee Engagement Guide for Managers

We began this chapter by noting that some companies are better to work for than are others. We therefore focused on programs managers use to cultivate the positive employee relations that contribute to being a best place to work. This final section focuses on some companies that are known in part for actually being best places to work.

The "Best Companies to Work For"

Each year, several organizations publish "Best Companies to Work For" lists, the most notable of which is probably "*Fortune* Magazine's 100 Best Companies to Work For®."[144] It is based on an extensive multinational survey of employees by the Great Place to Work® Institute (www.greatplacetowork.com).[145] The survey seeks to identify the best companies to work for, based on how the employees working in them actually feel about working there.

The Great Place to Work Institute defines a great workplace as one where employees trust the people they work for, have pride in the work they do, and enjoy the people they work with.[146] They say that these companies "have the highest levels of trust, strongest evidence of employee engagement and demonstrate the best applied management practices and programs" as defined by the institute's proprietary models.[147] Best Companies support their employees' well-being, both work life and personal life.[148] For example, in average companies, 52% of employees say "management genuinely cares about me," compared with 85% in Best Companies. Sixteen percent of employees in average companies describe themselves as flourishing, compared with 58% of Best Companies' employees.[149]

We will look at some recent "*Fortune* Magazine's 100 Best Companies to Work For," including SAS, Alphabet (Google), and FedEx.[150]

SAS: Great Benefits, Trust, and Work–Life Balance

SAS, headquartered in Cary, North Carolina, is a leader in providing business analytics software and services to companies that include 90 of the top 100 *Fortune* global 500 companies.[151] Founded in the 1970s, SAS is privately owned. It has annual revenues of over $2.3 billion, and over 14,000 people worldwide, including about 5,000 at the company's North Carolina campus.[152] SAS was most recently a *Fortune* Best Companies to Work, for Millennials.

To paraphrase its CEO, the firm's employees are happier and healthier because SAS's extensive benefits remove unnecessary distractions and stress.[153] Benefits include (for example) 3 to 4 weeks per year company-paid vacations, paid sick days, flexible work schedules, 11 paid holidays, company-paid life and accidental death insurance, retirement plans, an on-site fitness center, employee assistance programs, domestic partner benefits, and subsidized on-site child-care centers.[154]

In a larger sense, such benefits symbolize SAS's approach to employee relations. They long resisted laying off any employees; during the pandemic SAS did reportedly downsize its headquarters maintenance and support staff by about 100 people, when it became evident that many headquarters employees would henceforth be working from home.[155] SAS fosters trust in other ways. For instance it offers employees abundant freedom in the hours they work. It also has the Great Place to Work Institute survey employees on things such as communication, respect, and career paths.[156]

What does all this do for SAS? Retention is one. As a long-term employee put it, "I just can't imagine leaving SAS, and I felt that way for a very long time . . . if somebody offered to double my salary, I wouldn't even think about it."[157] Voluntary employee turnover, about 14.5% in software companies, is about 6.4% at SAS.[158] One expert estimated that lower turnover saves SAS $60–$80 million a year. Similarly, enabling employees to visit on-campus health professionals cuts hours out of employees' time away from work.[159] And, there is probably a positive effect on employee engagement, morale, and productivity as well.

Alphabet (Google) and People Analytics

When Google founders Larry Page and Sergey Brin began building Google, they wanted to make it a great place to work, so they turned to SAS. They met with SAS executives and sent a team there to better understand what made SAS consistently a "Best Company to Work For."[160]

It's therefore not surprising that Google (now Alphabet) has long offered exceptional benefits. In addition to things like healthcare benefits and flexible work hours (and the possibility of making millions on stock options), its benefits include onsite dry cleaners, bowling alleys, cafés, transportation to and from campus, and nap pods.[161] As Google put it, "It's all about removing barriers so Googlers can focus on the things they love, both inside and outside of work. We're constantly searching for unique ways to improve the health and happiness of our Googlers."[162]

Aside from its benefits, what sets Google apart is the scientific way it analyzes how to "improve the health and happiness" of Google employees. Google takes a highly analytical approach to maintaining positive employee relations: one writer called Google "The Happiness Machine".[163] Google calls its human resource department, "People Operations" (employees sometimes call it "POPS").[164] It hired social scientists to create what they call the People & Innovation Lab. It included a "people analytics team" charged with finding out how to make Googlers happy.[165] Some outsiders contend that Google's people analytics efforts exceed that which most employers should attempt.[166]

Google's social scientists run experiments, for instance, to determine if successful middle managers have certain skills, and what's the best way to remind people to contribute to their 401(k)s.[167] In one example, when the analytics team found that women staffers' turnover was too high, they concluded that new mothers were leaving at twice Google's average departure rate.[168] This led to a redesigned maternity leave plan including 5 months off at full pay and full benefits. The new plan cut female Googler turnover in half.[169] To support its analytical approach, Google "solicits employee feedback on everything from how they prefer to be compensated, to the design of new bicycles used at the expansive headquarters campus."[170]

Recent employee rumblings show that analytics may have some limits. For example, there were some sexual misconduct allegations. Googlers have also complained about Google's work for the U.S. military, questioned (a now cancelled) project to develop a China search engine, and complained that their pay is no longer so competitive. In an all-hands meeting Google addressed the concerns and explained its policies, for instance on pay.[171]

FedEx: Guaranteed Fair Treatment

FedEx has long been one of the "*Fortune* Magazine's 100 Best Companies to Work For". Several things—excellent benefits, competitive salaries, and a focus on promoting from within help to explain this; however, it may be FedEx's emphasis on *building trust through communications* that most sets it apart when it comes to employee relations.

SURVEY FEEDBACK ACTION (SFA) The FedEx survey feedback action (SFA) program is one example. SFA includes an anonymous survey that allows employees to express feelings

about the company and their managers, and to some extent about service, pay, and benefits. Each manager then has an opportunity to use the results to help design a blueprint for improving their workgroup's engagement and commitment.[172]

SFA has three phases. First, the survey itself is a standard, anonymous questionnaire given each year to every employee. The questions are designed to gather information about what helps and hinders employees in their work environment. Sample items include: "I can tell my manager what I think" and "My manager tells me what was expected." A workgroup's survey results are compiled and sent anonymously to the manager.

The second phase is a feedback session between the manager and his or her workgroup. The goal here is to identify specific concerns or problems, examine causes for these problems, and devise action plans to correct the problems.

The feedback meeting should lead to a third, "action plan" phase. This produces a list of actions that the manager will take to address employees' concerns and boost results. It includes: What is the concern? What's your analysis? What's the cause? and What should be done?

THE FEDEX GUARANTEED FAIR TREATMENT PROCESS As another example, FedEx's Guaranteed Fair Treatment Process (GFTP) goes beyond most grievance procedures, perhaps most notably in that an appeal can go all the way to FedEx's top executives. The effect is twofold: Complaints don't get a chance to fester; and managers think twice before acting unfairly.[173] GFTP is available to all permanent FedEx employees. It covers concerns regarding matters such as disputed performance reviews, disciplinary actions, and terminations.[174]

Employees use Guaranteed Fair Treatment Process packets, available from the HR department, to file GFTP complaints. These include a fact sheet listing the complainant's name and work history; a GFTP tracking sheet to track the complaint at each step; management's rationale (for instance, in terms of applicable policies and procedures); a write-up from the HR department; space for key documents (termination letters, and so on); and space for backup information including witness statements. The employee must try to resolve the problem with his or her supervisor before filing a GFTP appeal.

GFTP contains three steps.[175] In step one, *management review*, the complainant submits a written complaint to a manager, senior manager, or managing director, within seven calendar days of the occurrence of the eligible issue. Then the manager, senior manager, and managing director of the employee's group review all relevant information; hold a telephone conference and/or meeting with the complainant; make a decision to either uphold, modify, or overturn management action; and communicate their decision in writing to the complainant.

If turned down in step one, then in step two, *officer complaint*, the complainant submits a written complaint to an officer (VP or senior vice president) of the division within 7 calendar days of the step one decision.

Finally (if necessary), in step three, *executive appeals review*, the complainant submits a written complaint within 7 calendar days of the step two decision to the employee relations department. This department investigates and prepares a GFTP case file for the appeals board executive review. The appeals board—the CEO, the COO, the chief personnel officer, and senior vice presidents—then reviews all relevant information and makes a decision to either uphold, overturn, or initiate a board of review or to take other appropriate action; the appeals board's decision is final.

A "Best Company" Human Resource Philosophy?

SAS, Alphabet, and FedEx are different from each other, and from other companies, so there's no guarantee that what works for them will work for others. And, in fact, Alphabet and FedEx (while both still top 100 Best Companies to work for), have both confronted personnel challenges lately. Some FedEx drivers want to be employees, not contractors. And Alphabet, as noted, faced pushback from employees over pay and some company policies.

However, there are several things that any manager intent on building positive employee relations can learn from these companies. For one, they work hard to cultivate trust and to ensure—for instance, by monitoring employees' attitudes and by instituting open-door and guaranteed fair treatment–type grievance processes—that

they treat employees fairly. And in numerous ways (such as in their recognition programs, involvement programs, ethical standards, benefits, and climate surveys and other two-way communications programs), they all exhibit a deep and evident respect for their employees and for "putting employees first."

But perhaps the biggest thing a manager can glean from these companies is the human resource philosophy on which they base their human resource management practices. In Chapter 1, we said that people's actions are always based in part on the basic assumptions they make, and that this is especially true in regard to human resource management. The basic assumptions you make about people—Can they be trusted? Do they dislike work? Why do they act as they do? How should they be treated?—together comprise your philosophy of human resource management. And every personnel decision you make—the people you hire, the training you provide, your leadership style, and the like—reflects (for better or worse) this basic philosophy.

One thing molding your own philosophy is that of your top management. Their philosophy may or may not be stated, but is communicated by their actions, and permeates every level and department. Google's founders wanted their employees to be happy, and they worked hard since Google's founding to make them so. FedEx founder Frederick Smith is famous for (among many other things) his P-S-P mantra, namely that when you treat your People well they will provide great Service, and Profits will follow.[176] Similarly, the founder and CEO of SAS has said, "We've worked hard to create a corporate culture that is based on trust between our employees and the company . . . a culture that rewards innovation, encourages employees to try new things and yet doesn't penalize them for taking chances, and a culture that cares about employees' personal and professional growth."[177] Such HR philosophies—and the management actions they engender—may well be the "magic sauce" that helps explain why great companies to work for are great.

Chapter Review

Chapter Section Summaries

14-1. **Employee relations** is the activity that involves establishing and maintaining the positive employee–employer relationships that contribute to satisfactory productivity, motivation, morale, and discipline, and to maintaining a positive, productive, and cohesive work environment.

14-2. Managers and HR management use **programs to develop positive employee relations**. Unfair treatment reduces morale, increases stress, and has negative effects on employees and should be weeded out. Managers also use communications programs, recognition programs, and employee involvement programs to build positive employee relations.

14-3. **Ethics** refers to the principles of conduct governing an individual or a group, and specifically to the standards you use to decide what your conduct should be. Numerous factors shape ethical behavior at work. These include individual factors, organizational factors, the boss's influence, ethics policies and codes, and the organization's culture. HR management can influence ethical behavior. Having a fair and open selection process, establishing special ethics training programs, and rewarding (or disciplining) ethical (or unethical) work-related behavior are some examples.

14-4. A fair and just **discipline** process is based on rules and regulations, a system of progressive penalties, and an appeals process. A number of discipline guidelines are important, including discipline should be in line with the way management usually responds to similar incidents, management must adequately investigate the matter, and subordinates must not be robbed of their dignity.

14-5. There are several things that any manager intent on building positive employee relations and **employee engagement** can draw from studying "Best Companies to Work For" such as SAS, Google, and FedEx. Their managers cultivate trust and ensure that employees are treated fairly. They all exhibit a deep and evident respect for their employees and for "putting employees first." Their human resource philosophy emphasizes trust, respect, and caring about their employees' personal and professional growth.

Discussion Questions

14-1. Explain how you would ensure fairness in disciplining, discussing particularly the prerequisites to disciplining, disciplining guidelines, and the discipline without punishment approach.

14-2. Why is it important in our litigious society to manage electronic monitoring properly?

14-3. Provide two examples of behaviors that would probably be unethical but legal, and three that would probably be illegal but ethical.

14-4. List 10 things your college or university does to encourage ethical behavior by students and/or faculty.

14-5. You need to select a nanny for your or a relative's child, and want someone ethical. What would you do to help ensure you ended up hiring someone ethical?

14-6. You believe your coworker is being bullied. How would you verify this, and what would you do about it if it is true?

14-7. Define *employee relations*, and discuss at least four methods for managing it.

Individual and Group Activities

14-8. Working individually or in groups, interview managers or administrators at your employer or college in order to determine the extent to which the employer or college endeavors to build two-way communication, and the specific types of programs used. Do the managers think they are effective? What do the employees (or faculty members) think of the programs in use at the employer or college?

14-9. Working individually or in groups, obtain copies of the student handbook for your college and determine to what extent there is a formal process through which students can air grievances. Based on your contacts with other students, has it been an effective grievance process? Why or why not?

14-10. Working individually or in groups, determine the nature of the academic discipline process in your college. Do you think it is effective? Based on what you read in this chapter, would you recommend any modifications?

14-11. The HRCI *Exam Content Outline* website https://www.hrci.org/docs/default-source/web-files/phr-exam-content-outline.pdf?sfvrsn=13c44f61_28 lists the knowledge (see "Knowledge of") someone studying for the HRCI PHR certification exam needs to have in each area of human resource management (such as in Business Management, and in Talent Planning and Acquisition).[178] In groups of several students, do four things: (1) review the *Exam Content Outline* on that website; (2) identify the material in this chapter that relates to the Exam Content Outline's required "Knowledge Of" lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.

14-12. In a research study at Ohio State University, a professor found that even honest people, left to their own devices, would steal from their employers.[179] In this study, the researchers gave financial services workers the opportunity to steal a small amount of money after participating in an after-work project for which the pay was inadequate. Would the employees steal to make up for the underpayment? In most cases, yes. Employees who scored low on an honesty test stole whether or not their office had an ethics program that said stealing from the company was illegal. Employees who scored high on the honesty test also stole, but only if their office did not have such an employee ethics program—the "honest" people didn't steal if there was an ethics policy.

Individually or in groups, answer these questions: Do you think findings like these are generalizable? In other words, would they apply across the board to employees in other types of companies and situations? If your answer is yes, what do you think this implies about the need for and wisdom of having an ethics program?

Experiential Exercise

Discipline or Not?

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Purpose: The purpose of this exercise is to provide you with some experience in analyzing and handling an actual disciplinary action.

Required Understanding: Students should be thoroughly familiar with the facts of the following incident, titled "Botched Batch." **Do not read the "award" or "discussion" sections until after the groups have completed their deliberations.**

How to Set Up the Exercise/Instructions: Divide the class into groups of four or five students. Each group should take the arbitrator's point of view and assume that they are to analyze the case and make the arbitrator's decision. Review the case again at this point, but please do not read the award and discussion sections.

Each group should answer the following questions:

14-13. Based on what you read in this chapter, including all relevant guidelines, what would your decision be if you were the arbitrator? Why?

14-14. Do you think that after their experience in this arbitration the parties involved will be more or less inclined to settle grievances by themselves without resorting to arbitration?

Botched Batch:

Facts: A computer department employee made an entry error that botched an entire run of computer reports. Efforts to rectify the situation produced a second set of improperly run reports. Because of the series of errors, the employer incurred extra costs of $2,400, plus a weekend of overtime work by other computer department staffers. Management suspended the employee for 3 days for negligence, and revoked a promotion for which the employee had previously been approved.

Protesting the discipline, the employee stressed that she had attempted to correct her error in the early stages of the run by notifying the manager of computer operations of her mistake. Maintaining that the resulting string of errors could have been avoided if the manager had followed up on her report and stopped the initial run, the employee argued that she had been treated unfairly because the manager had not been disciplined even though he compounded the problem, whereas she was severely punished. Moreover, citing her "impeccable" work record and management's acknowledgment that she had always been a "model employee," the employee insisted that the denial of her previously approved promotion was "unconscionable."

(Please do **not** *read beyond this point until after you have answered the two questions.)*

Award: The arbitrator upholds the 3-day suspension, but decides that the promotion should be restored.

Discussion: "There is no question," the arbitrator notes, that the employee's negligent act "set in motion the train of events that resulted in running two complete sets of reports reflecting improper information." Stressing that the employer incurred substantial cost because of the error, the arbitrator cites "unchallenged" testimony that management had commonly issued 3-day suspensions for similar infractions in the past. Thus, the arbitrator decides, the employer acted with just cause in meting out an "evenhanded" punishment for the negligence.

Turning to the denial of the already approved promotion, the arbitrator says that this action should be viewed "in the same light as a demotion for disciplinary reasons." In such cases, the arbitrator notes, management's decision normally is based on a pattern of unsatisfactory behavior, an employee's inability to perform, or similar grounds. Observing that management had never before reversed a promotion as part of a disciplinary action, the arbitrator says that by tacking on the denial of the promotion in this case, the employer substantially varied its disciplinary policy from its past practice. Because this action on management's part was not "evenhanded," the arbitrator ruled, the promotion should be restored.[180]

Application Case

Enron, Ethics, and Organizational Culture

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For many people, a company called Enron Corp. still ranks as one of history's classic examples of ethics run amok. During the 1990s and early 2000s, Enron was in the business of wholesaling natural gas and electricity. Enron made its money as the intermediary (wholesaler) between suppliers and customers. Without getting into all the details, the nature of Enron's business—and the fact that Enron didn't actually own the assets—meant that its profit statements and balance sheets listing the firm's assets and liabilities were unusually difficult to understand.

It turned out that the lack of accounting transparency enabled the company's managers to make Enron's financial performance look much better than it actually was. Outside experts began questioning Enron's financial statements in 2001. In fairly short order, Enron collapsed, and courts convicted several of its top executives of things like manipulating Enron's reported assets and profitability. Many investors (including former Enron employees) lost all or most of their investments in Enron. In Enron's case, this breakdown is perhaps more perplexing than usual. As one writer said,

> Enron had all the elements usually found in comprehensive ethics and compliance programs: a code of ethics, a reporting system, as well as a training video on vision and values led by [the company's top executives].[181]

Experts subsequently put forth many explanations for how a company that was apparently so ethical outwardly could actually have been making so many bad ethical decisions without other managers (and the board of directors) noticing. The explanations ranged from a "deliberate concealment of information by officers," to more psychological explanations (such as employees not wanting to contradict their bosses) and the "surprising role of irrationality in decision-making."[182]

But perhaps the most persuasive explanation of how an apparently ethical company could go so wrong concerns organizational culture. The reasoning here is that it's not the rules but what employees feel they should do that determines ethical behavior. For example (speaking in general, not specifically about Enron), the executive director of the Ethics Officer Association put it this way:

> We're a legalistic society, and we've created a lot of laws. We assume that if you just knew what those laws meant that you would behave properly. Well, guess what? You can't write enough laws to tell us what to do at all times every day of the week in every part of the world. We've got to develop the critical thinking and critical reasoning skills of our people because most of the ethical issues that we deal with are in the ethical gray areas.

Questions

14-15. Based on what you read in this chapter, summarize in one page or less how you would explain Enron's ethical meltdown.

14-16. It is said that when one securities analyst tried to confront Enron's CEO about the firm's unusual accounting statements, the CEO publicly used vulgar language to describe the analyst, and that Enron employees subsequently thought doing so was humorous. If true, what does that say about Enron's ethical culture?

14-17. This case and chapter had something to say about how organizational culture influences ethical behavior. What role do you think culture played at Enron? Give five specific examples of things Enron's CEO could have done to create a healthy ethical culture.

Continuing Case

Carter Cleaning Company

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Guaranteeing Fair Treatment

Being in the laundry and cleaning business, the Carters feel strongly about not allowing employees to smoke, eat, or drink in their stores. Jennifer was therefore surprised to walk into a store and find two employees eating lunch at the front counter. There was a large pizza in its box, and the two of them were sipping colas and eating slices of pizza and submarine sandwiches off paper plates. Not only did it look messy, but there were grease and soda spills on the counter, and the store smelled from onions and pepperoni, even with the exhaust fan pulling air out through the roof. In addition to being a turnoff to customers, the mess on the counter meant that a customer's order might actually become soiled in the store.

Although this was a serious matter, Jennifer didn't feel that what the employees running the counter were doing was grounds for dismissal (partly because the store manager had apparently condoned their actions). It seemed to her that the matter called for more than just a warning but less than dismissal.

Questions

14-18. What would you do if you were Jennifer, and why?

14-19. Should a disciplinary system be established at Carter Cleaning?

14-20. If so, what should it cover? How would you suggest it deal with a situation such as the one with the errant employees running the counter?

14-21. How would you deal with the store manager?

Translating Strategy into HR Policies and Practices Case*,§

**The overall strategy map on the inside back cover of this text outlines the relationships involved.*

Improving Performance at the Hotel Paris

The Hotel Paris's New Ethics, Justice, and Fair Treatment Process

The Hotel Paris's competitive strategy is "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy, by eliciting the required employee behaviors and competencies.

As the head of HR for the Hotel Paris, Lisa Cruz was especially concerned about her company maintaining the highest ethical standards. Her concerns were twofold. First, there are, in any single hotel each day, at least a dozen people (including housekeepers, front-desk clerks, security guards, and so on) with easy access to guests' rooms, and to their personal belongings. Guests—many younger, and many unwary—are continually walking the halls unprotected. So, in a service company like this, there is simply no margin for ethical errors.

But she was concerned about ethics for a second reason. She knew that employees do not like being treated unfairly, and that unfairness in any form could manifest itself in low morale and in diminished performance. She wondered if her employees' low morale and engagement—as measured by her firm's attitude surveys—stemmed, in part, from what they perceived as unjust treatment. Lisa therefore turned to the task of assessing and redesigning the Hotel Paris's ethics, justice, and fair treatment practices.

When she sat with the CFO to discuss her proposal for the Hotel Paris's fairness, justice, and ethics system, Lisa came armed with some research. In 2003, the *Journal of Applied Psychology* published a study that showed how improving the level of interpersonal and procedural

justice in a service company can lead to improved employee attitudes and performance and thus to improved hotel performance.[183] And the study was done in a hotel chain.

In this study, the researchers collected employee survey data from a hotel chain's 111 different hotels in the United States and Canada. The employee services department of this hotel chain obtained completed surveys from 8,832 of the hotel's employees. The researchers also obtained data on employee turnover as well as on the employees' commitment, employees' intentions to remain with the organization, and guest satisfaction.

Clearly, having fair and just procedures in place affected these hotels' employee morale and behavior, and thus company performance—they could even measure the links. For example, procedural justice and interpersonal justice were related to increased levels of employees' satisfaction with supervision.

For Lisa and the CFO, these results supported, in a measurably defensible way, the idea that spending the money required to improve procedural and interpersonal justice would likely improve employee attitudes and behaviors (employee commitment, discretionary service behavior, and employee turnover), and, thereby, improve guest satisfaction and company performance.

Lisa and her HR team took steps to institute new ethics, justice, and fair treatment practices at the Hotel Paris. Working with the company's general counsel, they produced and presented to the CEO a new Hotel Paris code of ethics, as well as a more complete set of ethical guidelines. These now appear on the Hotel Paris's careers website link, and are part of each new employee's orientation packet. They contracted with a vendor to provide a customized, web-based ethics training program, and made it clear that the first employees to participate in it were the company's top executives.

Lisa and her team then proceeded methodically through the company's entire HR process, starting with recruitment and selection. The selection process now includes an honesty test. New guidelines ensure an open and fair performance appraisal process. The team completely revamped the hotel's disciplinary process. They instituted a new appeals process that included appeals to each hotel's manager, and then to Lisa Cruz, and finally to a top management executive appeals committee. They instituted a new discipline without punishment system.

After 6 months of operating under the new system, several changes are evident. Surveys Lisa took before the new program, and now, indicate a significant upward movement in the employees' perceptions of "consistent and equitable treatment of all employees." Grievances are down by 80%, 95% of employees are able to quote the ethics code, employee morale and commitment are up, and, in general, employee service–type behaviors (such as greeting guests in a friendly manner) have increased, too. Lisa and the CFO are pleased with the new system, and are optimistic it will also help to improve customer service satisfaction.

Questions

14-22. Based on what you learned in this chapter of Dessler, *Human Resource Management*, what do you think of the adequacy and effectiveness of the steps Lisa has taken so far?

14-23. List three more specific steps Hotel Paris should take with respect to each individual human resource function (selection, training, and so on) to improve the level of ethics in the company.

14-24. Based on what you learned in this chapter, write a short (less than one page) explanation Lisa can use to sell to top management the need to further improve the hotel chain's fairness and justice processes.

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Writing Assignments

14-25. What technique(s) would you use as alternatives to traditional discipline? Why do you think alternatives like these are important, given industry's need today for highly engaged and committed employees?

14-26. Using several "Best Companies to Work For" as examples, explain what you would do to improve employee relations in an organization.

Key Terms

employee relations, 445
fair treatment, 445
procedural justice, 446
distributive justice, 446
corporate social responsibility, 447
organizational climate, 448
suggestion teams, 449
problem-solving teams, 449
quality circle, 450
self-managing/self-directed work team, 450
ethics, 451
organizational culture, 454
Electronic Communications Privacy Act (ECPA), 456

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15 Labor Relations and Collective Bargaining

WHERE ARE WE NOW . . .

Chapter 14 focused on employee relations, ethics, and justice—all important in determining whether employees join unions. The main purpose of this chapter is to help you deal effectively with unions and grievances. After briefly discussing **The Labor Movement,** we describe **Unions and the Law,** including unfair labor practices. We explain labor negotiations, including the union actions to expect during **The Union Drive and Election** and during the actual **Collective Bargaining** sessions. We also explain **Dealing with Disputes and Grievances,** and finally, **The Union Movement Today and Tomorrow.**

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

15-1 **Present** a brief history of the American labor movement.

15-2 **Give five** examples of unfair union practices and of unfair employer practices in labor law.

15-3 **Present three examples** of what a supervisor should or should not do during the union drive and election.

15-4 **Illustrate with five examples** bargaining that is not in good faith.

15-5 **Develop** a grievance procedure.

15-6 **Give an example** of cooperative labor relations.

Walmart and Costco differ in how they view unions. Walmart generally works hard to prevent unions from gaining footholds in its stores. Costco is (relatively) open to unions. Many of its stores are unionized. Yet both companies are enormously successful retailers.

Recently, Walmart raised its average hourly wages to $15, gave $1,000 bonuses to employees, and made other positive tweaks to its HR strategy.[1] Walmart's low-cost leader strategy usually translates into low pay, minimized labor costs, and difficult labor relations. Walmart's recent pay and bonus moves suggest that its labor relations strategies may be evolving. We'll see if this is happening, and if so, why.

LEARNING OBJECTIVE 15-1

Present a brief history of the American labor movement.

The Labor Movement

Unions remain influential. Recently, 14.3 million of U.S. workers belonged to unions—about 10.8% of U.S. wage and salary workers. Most are public-sector workers: for example 34.8% of public-sector workers are union members, compared to only 6.3% of private-sector workers.[2] However in some private-sector industries such as utilities (20.6 percent), transportation and warehousing (17.0 percent), and telecommunications (14.3 percent), it can still be hard to get jobs without joining unions. Unionization also varies widely by state, from a high of 23.9% in Hawaii down to 2.9% in South Carolina.

Furthermore, it's a mistake to assume that unions only affect employers negatively. For example, perhaps by professionalizing the staff or practices, heart attack mortality among hospital patients with unionized nurses was 5% to 9% lower than in nonunion hospitals.[3] The HR as a Profit Center box has another example.

HR AS A PROFIT CENTER

Can unionization boost profitability?

Sometimes unions' apparent effects can seem counterintuitive.[4] UPS drivers are unionized. They earn almost twice what non-union FedEx ground workers earn, sometimes $100,000 annually. That would seem to be a recipe for low profits. But during the pandemic, FedEx Ground struggled to hire drivers. Understaffed, they missed delivery deadlines. Bloomberg reports that FedEx accumulated almost $450 million in extra costs in this period. Meanwhile, unionized UPS had few problems finding or keeping motivated drivers. Perhaps that's one reason UPS kept its profits up. ■

Support for unions has always ebbed and flowed in America. Recently about 55% of American adults had a positive view of labor unions' effects on the country.[5]

Why Do Workers Organize?

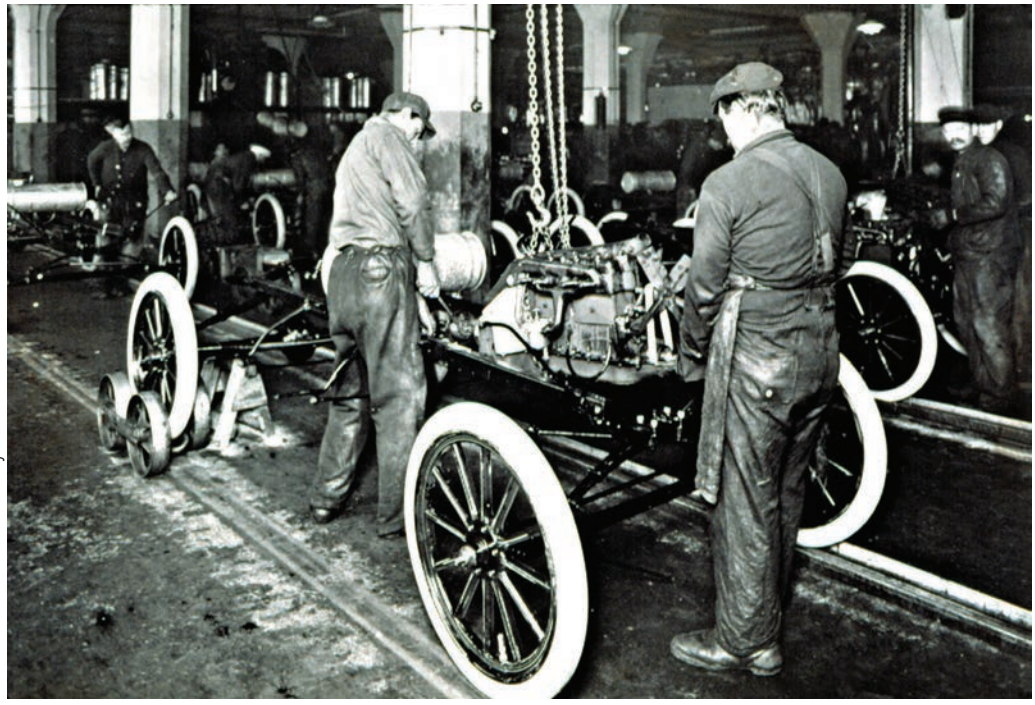
Experts have spent much time and money trying to figure out why workers unionize, and they've proposed many theories. Yet there is no simple answer.

Pay is still important. For example, recent median weekly earnings for nonunion workers ($958) is about 84% of those for union workers ($1,144).[6] Union workers also generally receive more holidays, sick leave, unpaid leave, health plan benefits, and other benefits compared with nonunion workers.

But it's not just the money. Instead, the urge to unionize often comes down to workers' belief that it's only through unity that they can get their fair share of the "pie" and also protect themselves from the arbitrary whims of management. The bottom line is that low morale, fear of job loss, and poor communication (in other words, poor employee relations) also foster unionization. When Kaiser Permanente cut back on vacation and sick leave for its pharmacists, the Guild for Professional Pharmacists won back the lost vacation days. Said one, "Kaiser is a pretty benevolent employer, but there's always the pressure to squeeze a little."[7] One labor relations lawyer says, "The one major thing unions offer is making you a 'for cause' instead of an 'at will' employee, which guarantees a hearing and arbitration if you're fired."[8] So, in practice, low morale, fear of job loss, and arbitrary management actions help foster unionization.[9]

In some respects, things haven't changed over the years. Here is how one writer describes the motivation behind the early (1900s) unionization of automobile workers:

> In the years to come, economic issues would make the headlines when union and management met in negotiations. But in the early years. . . . the principal grievances of the autoworkers were the speed-up of production and the lack of any kind of job security. . . . Generally, what the workers revolted against was the lack of human dignity and individuality, and a working relationship that was massively impersonal, cold, and nonhuman. They wanted to be treated like human beings—not like faceless clock card numbers.[10]



Everett Collection Inc/Alamy Stock Photo

Workers at an early Ford factory. In addition to heavy physical labor, workers faced health hazards—poor lighting, dust, and dangerous machinery.

HR and the Gig Economy: Will Uber Drivers Organize?

For many gig workers, being at the employer's mercy is gig work's biggest downside. For example, low user ratings can prompt Uber to abruptly deactivate a driver. Would unionizing help?

Many Uber drivers think so. In New York City pressure from drivers prompted Uber to create a union-like entity known as the Independent Drivers Guild (IDG).[11] It isn't really a union under the law. For instance, Uber funds the Guild, Uber drivers are independent contractors and didn't vote to have the Guild represent them, and the Guild agreed not to instigate strikes for several years. However, the IDG has set up a mechanism through which Uber drivers can appeal deactivations (staffed by other drivers and overseen by the American Arbitration Association).[12] Then, a few years ago the NLRB held that Uber drivers are contractors, not employees, and could not unionize.[13] But U.S. Uber drivers continue to push for unionization.[14] And in 2021 Uber recognized a union for many of its UK drivers.[15]

Employee Engagement and Unionization

Why else do workers unionize? *Modern Survey* conducted a study that measured things such as employees' interest in being represented by a union, confidence in senior management, and employee engagement. It concluded that 50% of "actively disengaged" employees would vote "yes" to unionize. It concludes that "paying attention to employee engagement levels within your organization helps to foster positive relationships between employees and management and decreases the likelihood of a workforce seeking union representation."[16]

Gallup surveys complement these conclusions. For example, among the over 500 organizations in which Gallup measures employee engagement, 45% of *non*union employees were engaged, while only 38% of unionized employees were engaged.[17]

Findings like these don't prove that unengaged employees are necessarily more likely to support a unionization effort in their companies. The findings are correlational, so they only "prove" that when employee engagement goes up, unionization goes down. It could be that the same management policies (such as guaranteed fair treatment systems) affect both employee engagement and nonunionization. But on the whole such findings probably do suggest that the same sorts of policies (such as good benefits, building trust, and guaranteeing fair treatment) that improve employee engagement may also reduce the likelihood of being unionized.

What Do Unions Want?

Samuel Gompers, a founder of the American Federation of Labor (AFL), supposedly summed up what unions want with the pithy, "more".[18] However we can generalize by saying that unions have two sets of aims, for *union security* and for *improved wages, hours, working conditions, and benefits* for their members.

UNION SECURITY First and probably foremost, unions seek security for themselves. They fight hard for the right to represent a firm's workers, and to be the exclusive bargaining agent for all employees in the unit. (As such, they negotiate contracts for all employees, including those not members of the union.) Five types of union security are possible:

closed shop
A form of union security in which the company can hire only union members. This was outlawed in 1947 but still exists in some industries (such as printing).

union shop
A form of union security in which the company can hire nonunion people, but they must join the union after a prescribed period of time and pay dues. (If they do not, they can be fired.)

agency shop
A form of union security in which employees who do not belong to the union must still pay union dues on the assumption that union efforts benefit all workers.

preferential shop
Union members get preference in hiring, but the employer can still hire nonunion members.

right to work
A term used to describe state statutory or constitutional provisions banning the requirement of union membership as a condition of employment.

1. **Closed shop.**[19] The company can hire only current union members. Congress outlawed closed shops in interstate commerce, but they still exist in some states for particular industries (such as printing). They account for fewer than 5% of union contracts.
2. **Union shop.** The company can hire nonunion people, but they must join the union after a prescribed period and pay dues. (If not, they can be fired.) These account for about 73% of union contracts.
3. **Agency shop.** Employees who do not belong to the union still must pay the union an amount equal to union dues (on the assumption that the union's efforts benefit *all* the workers).
4. **Preferential shop.** Union members get preference in hiring, but the employer can still hire nonunion members.
5. **Maintenance of membership arrangement.** Employees do not have to belong to the union. However, union members employed by the firm must maintain membership in the union for the contract period. These account for about 4% of union agreements.

Not all states give unions the right to require union membership as a condition of employment. **Right to work** is a term used to describe "state statutory or constitutional provisions banning the requirement of union membership as a condition of employment."[20] *Right-to-work laws* don't outlaw unions. They do outlaw (within those states) any form of union security. Recently, there were 27 right-to-work states.[21] Right to work adversely affects union membership levels, often dramatically. Five states—Indiana, Kentucky, Michigan, West Virginia, and Wisconsin— became right-to-work states between 2011 and 2017. A study found that union membership dropped in these states by 4% five years later. More broadly, they found that unionization rates were about 20% lower in right-to-work states than in others, and wages were 7.5% lower.[22]

IMPROVED WAGES, HOURS, AND BENEFITS Once the union ensures its security at the employer, it fights to improve its members' wages, hours, working conditions, and benefits (see the accompanying Diversity Counts box). The typical labor agreement also gives the union a role in other human resource activities, including recruiting, selecting, compensating, promoting, training, and discharging employees.

DIVERSITY COUNTS

Unions' Role in Reducing the Wealth Gap

We saw that union members usually earn more than non-union ones.[23] What may not be apparent is that union membership also boosts worker wealth, in terms of assets such as checking accounts and homes. This is partly because union members tend to earn more. But it's also because union workers tend to have more job stability (it's harder to fire them), and better benefits and retirement plans. They can therefore save more, accumulate more, and buy homes they might not otherwise.

Because of this, unions may also shrink racial wealth gaps.[24] Whites tend to start with more wealth. Therefore, each extra dollar of wealth that unions produce raises Blacks' and Hispanics' wealth proportionately more for them than it would for a White worker. For example, the progressive *Center for American Progress* found that the median wealth

of White *non*union workers recently was $205,000, while that for White union workers was $370,000, or about 1.8 times more. However household wealth for Black union members ($101,000) was over *three times* that of Black nonunion workers ($29,000). For Hispanic union members ($125,000) it was about *five times* that for non-union ones ($24,000). In other words, unions may help shrink racial wealth gaps. ■

The AFL–CIO and Union Federations

To strengthen their organizing and other efforts, unions have long affiliated themselves into umbrella federations. For example the American Federation of Labor and Congress of Industrial Organizations (AFL–CIO) is a voluntary federation of about 57 national and international labor unions in the United States. For many people in the United States, the AFL–CIO is still synonymous with the word *union*.

There are three layers in the AFL–CIO and most other U.S. unions. The worker joins the local union, to which the person pays dues. The local is in turn a single chapter in the national union. For example, if you were a teacher in Detroit, you would belong to the local union there, which is one of hundreds of local chapters of the American Federation of Teachers, their national union (most unions actually call themselves international unions). The third layer is the national federation, in this case, the AFL–CIO.

Change to Win is another federation. Its affiliated unions include the Teamsters Union, United Farm Workers of America, the Communications Workers of America, and the Service Employees International Union (SEIU).[25] SEIU itself has over 2 million members. It includes the largest health-care union, with more than 1.1 million members (including nurses, LPNs, and doctors,) and the second-largest public employees union.[26]

LEARNING OBJECTIVE 15-2

Give five examples of unfair union practices and of unfair employer practices in labor law.

Unions and the Law

The history of the American labor movement is one of expansion and contraction in response to public policy changes. Until about 1930, there were no special labor laws. Employers were not required to engage in collective bargaining with employees and were virtually unrestrained in their behavior toward unions; the use of spies and firing of union agitators were widespread. "Yellow dog" contracts, whereby management could require nonunion membership as a condition for employment, were widely enforced. Most union weapons—even strikes—were illegal.

This situation lasted until the Great Depression (around 1930).[27] Since then, in response to changing public attitudes and economic conditions, labor law went through three clear periods: from "strong encouragement" of unions, to "modified encouragement coupled with regulation," and finally to "detailed regulation of internal union affairs."[28]

Norris–LaGuardia Act of 1932
This law marked the beginning of the era of strong encouragement of unions and guaranteed to each employee the right to bargain collectively "free from interference, restraint, or coercion."

National Labor Relations (or Wagner) Act
This law banned certain types of unfair practices and provided for secret-ballot elections and majority rule for determining whether a firm's employees want to unionize.

National Labor Relations Board (NLRB)
The agency created by the Wagner Act to investigate unfair labor practice charges and to provide for secret-ballot elections and majority rule in determining whether a firm's employees want a union.

Period of Strong Encouragement: The Norris–LaGuardia (1932) and National Labor Relations (or Wagner) Acts (1935)[29]

The **Norris–LaGuardia Act of 1932** set the stage for a new era in which union activity was encouraged. It guaranteed to each employee the right to bargain collectively "free from interference, restraint, or coercion." It declared yellow dog contracts unenforceable. And it limited the courts' abilities to issue injunctions (stop orders) for activities such as peaceful picketing and payment of strike benefits.

Yet this act did little to restrain employers from fighting labor organizations. So, in 1935, Congress passed the **National Labor Relations (or Wagner) Act** to add teeth to Norris–LaGuardia. It did this by (1) banning certain unfair labor practices, (2) providing for secret-ballot elections and majority rule for determining whether a firm's employees would unionize, and (3) creating the **National Labor Relations Board (NLRB)** to enforce these two provisions.[30]

UNFAIR EMPLOYER LABOR PRACTICES The Wagner Act deemed "statutory wrongs" (but not crimes) five unfair labor practices used by employers:

1. It is unfair for employers to "interfere with, restrain, or coerce employees" in exercising their legally sanctioned right of self-organization.
2. It is unfair for company representatives to dominate or interfere with either the formation or the administration of labor unions. Among other specific

management actions found to be unfair under these first two practices are bribing employees, using company spy systems, moving a business to avoid unionization, and blacklisting union sympathizers.
3. Employers are prohibited from discriminating in any way against employees for their legal union activities.
4. Employers are forbidden to discharge or discriminate against employees simply because the latter file unfair practice charges against the company.
5. Finally, it is an unfair labor practice for employers to refuse to bargain collectively with their employees' duly chosen representatives.

Unions file an unfair labor practice charge with the National Labor Relations Board. (The form for filing such a charge, Form NLRB-501, and other NLRB forms, are at https://www.nlrb.gov/guidance/fillable-forms.) The Board then decides whether to take action. Possible actions include dismissing the complaint, requesting an injunction against the employer, or ordering that the employer cease and desist.

FROM 1935 TO 1947 Union membership increased quickly after passage of the Wagner Act. Other factors such as an improving economy and aggressive union leadership contributed to this rise. But by the mid-1940s, largely due to massive postwar strikes, public policy began to shift against what many viewed as union excesses. The stage was set for passage of the Taft–Hartley Act.

Period of Modified Encouragement Coupled with Regulation: The Taft–Hartley Act (1947)

Taft–Hartley Act of 1947
Also known as the *Labor Management Relations Act*, this law prohibited unfair union labor practices and enumerated the rights of employees as union members. It also enumerated the rights of employers.

The **Taft–Hartley (or Labor Management Relations) Act of 1947** reflected the public's less enthusiastic attitude toward unions. It amended the National Labor Relations (Wagner) Act by limiting unions in four ways: (1) prohibiting unfair union labor practices, (2) enumerating the rights of employees as union members, (3) enumerating the rights of employers, and (4) allowing the president of the United States to bar temporarily national emergency strikes.

Unfair Union Labor Practices

The Taft–Hartley Act enumerated several labor practices that unions were prohibited from engaging in:

1. First, it banned *unions* from *restraining or coercing employees* from exercising their guaranteed bargaining rights. (Some union actions that courts have held illegal include telling anti-union employees they may lose their jobs once the union gains recognition, and issuing patently false statements during union organizing campaigns.)
2. It is also an unfair labor practice for a union to *cause an employer to discriminate* in any way against an employee so as to encourage or discourage that person's union membership. For example, the union cannot try to force an employer to fire a worker because that worker doesn't attend union meetings or refuses to join a union. There is one exception: Suppose a closed or union shop prevails (and union membership is therefore a prerequisite to employment). Then the union may demand the discharge of someone who fails to pay his or her initiation fees and dues.
3. It is an unfair labor practice for a union to *refuse to bargain in good faith* with the employer about wages, hours, and other employment conditions.
4. It is an unfair labor practice for a union to engage in *featherbedding* (requiring an employer to pay an employee for services not performed).

RIGHTS OF EMPLOYEES The Taft–Hartley Act protected the rights of employees against their unions in other ways. For example, many people felt that compulsory unionism violated the right of freedom of association. Legitimized by Taft–Hartley, new right-to-work laws sprung up in 19 (now 27) states (mainly in the South and Southwest). In New York, for example, in many printing firms you can't work as a press operator unless

you belong to a printers' union. In Florida, a right-to-work state, printing shops typically employ both union and nonunion operators. The Taft–Hartley act also required the employee's authorization before the union could subtract dues from his or her paycheck.

In general, the Labor Relations (Taft–Hartley) Act does not restrain unions from unfair labor practices to the extent that the law does employers. It says unions may not restrain or coerce employees. However, "violent or otherwise threatening behavior or clearly coercive or intimidating union activities are necessary before the NLRB will find an unfair labor practice."[31] Examples include physical assaults or threats, economic reprisals, and mass picketing that restrains lawful entry or leaving.

RIGHTS OF EMPLOYERS The Taft–Hartley Act also explicitly gave *employers* certain rights. First, it gave them full freedom to express their views concerning union organization. For example, employers can tell employees that in their opinion unions are worthless, dangerous to the economy, and immoral. They can even (generally) hint that unionization and high-wage demands might result in the permanent closing of the plant (but not its relocation). Employers can set forth the union's record concerning violence and corruption, if appropriate. In fact, the only major restraint is that employers must avoid threats, promises, coercion, and direct interference with workers who are trying to reach a decision. There can be no threat of reprisal or force or promise of benefit.[32]

Furthermore, the employer (1) cannot meet with employees on company time *within 24 hours* of an election or (2) suggest to employees that they vote against the union while they are at home or in the employer's office (although the employer can do so while in their work area or where they normally gather).

NATIONAL EMERGENCY STRIKES The Taft–Hartley Act also allows the U.S. president to intervene in **national emergency strikes**. These are strikes (for example, by railroad workers) that might "imperil the national health and safety." The president may appoint a board of inquiry and, based on its report, apply for an injunction restraining the strike for 60 days. If the parties don't reach a settlement during that time, the president can have the injunction extended for another 20 days. During this last period, employees take a secret ballot to ascertain their willingness to accept the employer's last offer.

national emergency strikes
Strikes that might "imperil the national health and safety."

Period of Detailed Regulation of Internal Union Affairs: The Landrum–Griffin Act (1959)

In the 1950s, Senate investigations revealed unsavory practices on the part of some unions, and the result was the **Landrum–Griffin Act (officially, the Labor Management Reporting and Disclosure Act) of 1959**. An overriding aim of this act was to protect union members from possible union wrongdoing. Like Taft–Hartley, it also amended the National Labor Relations (Wagner) Act.

Landrum–Griffin Act of 1959
Also known as the *Labor Management Reporting and Disclosure Act*, this law aimed at protecting union members from possible wrongdoing on the part of their unions.

First, the act contains a *bill of rights* for union members. It provides for certain rights in the nomination of candidates for union office. It also affirms a member's right to sue his or her union and ensures that the union cannot fine or suspend a member without due process.

This act also laid out rules regarding union elections. For example, national and international unions must elect officers at least once every 5 years, using a secret-ballot mechanism. And the act regulates the kind of person who can serve as a union officer. For example, it bars for a time persons convicted of felonies from holding union officer positions.

Senate investigators also discovered flagrant examples of employer wrongdoing. Employers and their "labor relations consultants" had bribed union agents and officers, for example. Landrum–Griffin therefore expanded the list of unlawful employer actions. For example, companies can no longer pay their own employees to entice them not to join the union.

LEARNING OBJECTIVE 15-3
Present three examples of what a supervisor should or should not do during the union drive and election.

The Union Drive and Election

It is through the union drive and election that a union tries to be recognized to represent employees. To protect themselves and their employers, supervisors need to understand this process. It has five basic steps.[33]

Step 1. Initial Contact

During the initial contact stage, the union determines the employees' interest in organizing, and establishes an organizing committee.

The initiative for the first contact between the employees and the union may come from the employees, from a union already representing other employees of the firm, or from another union. In any case, there is an initial contact.

Once an employer becomes a target, a union official usually assigns a representative to assess employee interest. The representative visits the firm to determine if enough employees are interested in a campaign, identifies employees who would make good leaders in the organizing campaign, and creates an organizing committee.[34] The aim is to educate the committee about the benefits of forming a union and the law and procedures for forming a local union.

The union must follow certain rules when it starts contacting employees. The law allows organizers to solicit employees for membership as long as the effort doesn't endanger the performance or safety of the employees. Therefore, much contact takes place off the job, perhaps at home or at places near work. Organizers can also safely contact employees on company grounds during off hours (such as lunch or break time). Yet, in practice, there will be much informal organizing going on at the workplace as employees debate organizing. Sometimes the first inkling management has is the distribution of handbills soliciting union membership.

Much soliciting will be via e-mail, but prohibiting employees from sending pro-union e-mail messages using company e-mail isn't easy. You can't discriminate against union activities. Therefore, prohibiting only union e-mail may violate NLRB rules. And barring workers from using e-mail for all non-work-related topics may be futile if the company actually does little to stop it.

LABOR RELATIONS CONSULTANTS Both management and unions typically use "labor relations consultants." These may be law firms, researchers, psychologists, labor relations specialists, or public relations firms. Some are former union organizers.[35]

For the employer, the consultant's services may range from ensuring that the firm properly fills out routine labor relations forms to managing the union campaign. Unions may use public relations firms to improve their image, or specialists to manage corporate campaigns. (These pressure shareholders and creditors to get management to agree to the union's demands.)

Some say consultants encourage questionable tactics. One tactic is to delay the union vote with lengthy hearings at the NLRB. The longer the delay in the vote, they argue, the more time the employer has to drill anti-union propaganda into the employees.

union salting
A union organizing tactic by which workers who are in fact employed full-time by a union as undercover organizers are hired by unwitting employers.

UNION SALTING Unions are not without creative ways to win elections. The National Labor Relations Board defines **union salting** as "placing of union members on non-union job sites for the purpose of organizing." Critics claim that "salts" interfere with business operations and harass employees.[36] Some critics call it a "conspiracy" of labor bosses.[37] The U.S. Supreme Court ruled that union salts are "employees" under the National Labor Relations Act; the NLRB will require that employers pay salts if they fire them for trying to organize.[38] The solution is to know whom you're hiring. However, not hiring someone solely because the person might be pro-union or a union salt would be discriminatory.[39]

Unions also use *public pressure*. For example, in the past few years, unions have organized about 5,000 Silicon Valley contract workers (such as Facebook shuttle drivers), most of whom are employed by contractors.[40]

When the Unite union set out to organize Facebook shuttle workers, they didn't just pressure the employment contractor (Loop Transportation Inc.). Instead, Unite's campaign publicized how Facebook shuttle drivers had to sleep in their cars to make ends meet; news organizations worldwide ran the story. Soon, with Facebook's acquiescence, Loop Transportation signed a contract with the union and boosted drivers' pay.

Step 2. Obtaining Authorization Cards

authorization cards
In order to petition for a union election, the union must show that at least 30% of employees may be interested in being unionized. Employees indicate this interest by signing authorization cards.

For the union to petition the NLRB for the right to hold an election, it must show that a sizable number of employees may be interested in organizing. Therefore, the next step for union organizers is to try to get the employees to sign **authorization cards**. Among other things, these usually authorize the union to seek a representation election, to be the employee's sole union representative, and state that the employee has applied to join the union. Thirty percent of the eligible employees in an appropriate bargaining unit must sign before the union can petition the NLRB for an election. (Alternatively, that figure may rise to over 50%, if the employer instead agrees to recognize the union *without an election* if a majority of employees sign the authorization cards).[41]

This is a dangerous time for supervisors. During this stage, both union and management use propaganda. The union claims it can improve working conditions, raise wages, increase benefits, and generally get the workers better deals. Management can attack the union on ethical and moral grounds and cite the cost of union membership. Management can also explain its accomplishments, express facts and opinions, and explain the law applicable to organizing campaigns. However, neither side can threaten, bribe, or coerce employees. And an employer (or supervisor) may not make promises of benefits to employees or make unilateral changes in terms and conditions of employment that were not planned to be implemented prior to the onset of union organizing activity.

STEPS TO TAKE Management can take several steps with respect to the authorization cards. For example, the NLRB ruled an employer might lawfully inform employees of their right to revoke their authorization cards, even when employees have not asked for such information. The employer can also distribute pamphlets that explain just how employees can revoke their cards. However, the law prohibits any material assistance to employees such as postage or stationery.

Similarly, it is an unfair labor practice to tell employees they can't sign a card. What you *can* do is prepare supervisors so they can explain what the card actually authorizes the union to do—including subjecting the employee to union rules. The union, for instance, may force the employee to picket and fine any member who does not comply. Such explanations can be an effective weapon.

One thing managers should *not* do is look through signed authorization cards if confronted with them by union representatives. The NLRB could construe that as an unfair labor practice, as spying on those who signed. Doing so could also later form the basis of a charge alleging discrimination due to union activity, if the firm subsequently disciplines someone who signed a card.

During this stage, unions can picket the company, subject to three constraints: (1) The union must file a petition for an election within 30 days after the start of picketing; (2) the firm cannot already be lawfully recognizing another union; and (3) there cannot have been a valid NLRB election during the past 12 months.

Step 3. Hold a Hearing

Once the union collects the authorization cards, one of two things can occur. In some cases the union may persuade an employer to recognize a union after showing majority union support, for instance by signed authorization cards. Here the employer cannot withdraw recognition of the union as the employees' bargaining representative for at least six months (but no more than one year). No hearing is required and bargaining can ensue. If an employer *does* wish to contest the union's right, it can insist on a hearing to determine issues such as the right of the union to hold an election, the scope of the bargaining unit, or which employees are eligible to vote. An employer's decision about whether to insist on a hearing is a strategic one. Management bases it on the facts of each case, and on whether it feels it needs more time to try to persuade employees not to elect a union.

Most companies do contest the union's right to represent their employees, claiming that a significant number don't really want the union. It is at this point that the NLRB gets involved. The union usually contacts the NLRB, which requests a hearing. It then sends a hearing officer to investigate. The examiner sends both

management and union a notice of representation hearing (NLRB Form 852) that states the time and place of the hearing.

The hearing addresses several issues. First, does the record indicate there is enough evidence to hold an election? (For example, did 30% or more of the employees in an appropriate bargaining unit sign the authorization cards?) Second, the examiner decides what the bargaining unit will be. The **bargaining unit** is the group of employees that the union will be authorized to represent and bargain for collectively. If the entire organization is the bargaining unit, the union will represent all nonsupervisory, nonmanagerial, and nonconfidential employees, even though the union may be oriented mostly toward blue-collar workers. (Professional and nonprofessional employees can be included in the same bargaining unit only if the professionals agree.) If your firm disagrees with the examiner's bargaining unit decision, it can challenge the decision. This will require a separate NLRB ruling.

bargaining unit
The group of employees the union will be authorized to represent.

The NLRB hearing addresses other issues. These include, "Does the employer qualify for coverage by the NLRB?" and "Is the union a labor organization within the meaning of the National Labor Relations Act?"

If the results of the hearing are favorable for the union, the NLRB will order holding an election. It will issue a Notice of Election (NLRB Form 707) to that effect for the employer to post.

Step 4. The Campaign

During the campaign that precedes the election, union and employer appeal to employees for their votes. The union will emphasize that it will prevent unfairness, set up grievance and seniority systems, and improve wages. Management will stress that improvements like those don't require unions and that wages are equal to or better than with a union. Management will also emphasize the cost of union dues; the fact that the union is an "outsider"; and that if the union wins, a strike may follow. It can even attack the union on ethical and moral grounds, while insisting that employees will not be as well off and may lose freedom. But neither side can threaten, bribe, or coerce employees.

Campaigns are often tense. In a recent campaign at Amazon's Bessemer, Alabama, facility, Amazon won the vote over the Retail, Wholesale, Department Store Union.[42] Then the union accused Amazon of antiunion behavior. The NLRB agreed. It said Amazon "flagrantly disregarded" election rules, and must hold a new election.

The following month Amazon signed an agreement with the NLRB.[43] Amazon basically agreed to make it easier for its warehouse workers to organize. For example, it notified all its warehouses workers about their rights to organize, and made it easier for them to discuss organizing while at work.[44]

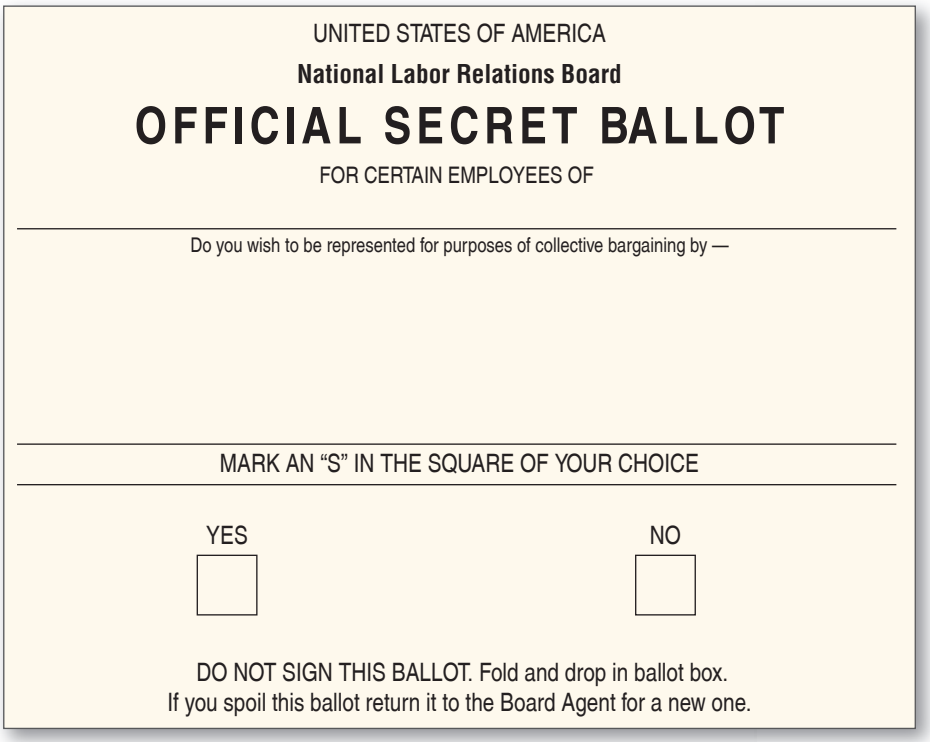
Step 5. The Election

The election occurs within 30 to 60 days after the NLRB issues its Decision and Direction of Election. The election is by secret ballot; the NLRB provides the ballots (see Figure 15-1), voting booth, and ballot box; counts the votes; and certifies the results.

The union becomes the employees' representative if it wins the election, and winning means getting a majority of the votes *cast*, not a majority of the total workers in the bargaining unit. (Also keep in mind that if an employer commits an unfair labor practice, the NLRB may reverse a "no union" election. Supervisors must therefore be careful not to commit unfair practices.)

Several things influence whether the union wins the certification election. Unions have a higher probability of success in geographic areas with a higher percentage of union workers. High unemployment seems to lead to poorer results for the union, perhaps because employees fear that unionization efforts might result in reduced job security or employer retaliation. Unions usually carefully pick the size of their bargaining unit (all clerical employees in the company, only those at one facility, and so on) because the larger the bargaining unit, the smaller the probability of union victory. The more workers vote, the less likely a union victory, probably because more workers who are not strong supporters vote.

FIGURE 15-1 Sample NLRB Ballot


UNITED STATES OF AMERICA

National Labor Relations Board

OFFICIAL SECRET BALLOT

FOR CERTAIN EMPLOYEES OF

Do you wish to be represented for purposes of collective bargaining by —

MARK AN "S" IN THE SQUARE OF YOUR CHOICE

YES NO

DO NOT SIGN THIS BALLOT. Fold and drop in ballot box.
If you spoil this ballot return it to the Board Agent for a new one.

How to Lose an NLRB Election

In recent years, unions have won about 69% of elections held each year (and as we'll see, somewhat fewer decertifications).[45] According to expert Matthew Goodfellow, there is no sure way employers can win elections, but several sure ways to lose one.[46]

Reason 1. Asleep at the switch. In one study, in 68% of the companies that lost to the union, executives were caught unaware. In these companies, turnover and absenteeism had increased, productivity was erratic, and safety was poor. Grievance procedures were rare. But ironically when the first reports of authorization cards began trickling in, management usually responded with letters describing the company as "one big family."[47]

Reason 2. Appointing a committee. Of the losing companies, 36% formed a committee to manage the campaign. The problems here are that: (1) promptness is essential in an election situation, and committees move slowly; (2) most committee members are NLRB neophytes, whose views reflect hope rather than experience; and (3) a committee's decision is usually a compromise decision, not necessarily the most effective one. This expert suggests giving full responsibility to one decisive executive. A human resource director and a consultant or advisor with broad experience in labor relations should assist this person.

Reason 3. Concentrating on money and benefits. In 54% of the elections studied, the company lost because top management concentrated on money and benefits. As Goodfellow says:

> Employees may want more money, but quite often, if they feel the company treats them fairly, decently, and honestly, they are satisfied with reasonable, competitive rates and benefits. It is only when they feel ignored, uncared for, and disregarded that money becomes a major issue to express their dissatisfaction.[48]

Reason 4. Delegating too much to divisions. For companies with plants scattered around the country, unionizing one plant tends to lead to unionizing others. The solution is, don't abdicate all personnel and industrial relations decisions to plant managers.[49] Dealing effectively with unions—monitoring employees' attitudes, reacting properly when the union appears, and so on—requires centralized guidance from the main office and its human resources staff.

What to Expect the Union to Do to Win the Election

Starbucks worked hard to win its recent union elections against the Starbucks Workers United union, at its stores in Buffalo, New York.[50] They lost one vote, won one, and had one under appeal. The Amazon Labor Union lost a big election; one expert says it lost in part because Amazon convinced its workers that unionizing would make them worse off.[51]

What can unions do to boost their chances they'll win an election? A researcher analyzed data from 261 NLRB elections. She found that the best way for unions to win is a "rank-and-file strategy." This includes:[52]

1. "Reliance on a slow, underground, person-to-person campaign using house calls, small group meetings, and pre-union associations to develop leadership and union commitment, and prepare workers for employer anti-union strategies before the employer becomes aware of the campaign."
2. The union will focus on building active rank-and-file participation, including an organizing committee reflecting the different interest groups in the bargaining unit.
3. The union will press for a first contract early in the organizing process.
4. The union will use "inside and outside pressure tactics to build worker commitment and compel the employer to run a fair campaign."
5. There will be an emphasis during the organizing campaign on issues such as respect, dignity, and fairness, not just traditional bread-and-butter issues like wages.

The Supervisor's Role

After Target won a unionization election at a New York store, a federal judge overturned it and required a new election. The judge found that Target managers had violated labor law by telling employees they couldn't wear union buttons or distribute flyers, and by threatening to discipline workers who discussed union matters.[53]

Supervisors are an employer's first line of defense in the unionizing effort. They are often in the best position to sense employee attitude problems, and to discover the first signs of union activity. However, supervisors can also inadvertently undermine their employer's union efforts. Supervisory unfair labor practices could then (1) cause the NLRB to hold a new election after your company has won a previous election, or (2) cause your company to forfeit the second election and go directly to contract negotiation.

For example, one plant superintendent reacted to a union's initial organizing attempt by prohibiting distribution of union literature in the plant's lunchroom. Since solicitation of off-duty workers in nonwork areas is generally legal, the company subsequently allowed the union to post literature on the company's bulletin board and to distribute literature in nonworking areas inside the plant. However, the NLRB still ruled that the initial act of prohibiting distribution of the literature was an unfair labor practice, one not "made right" by the company's subsequent efforts. The NLRB used the superintendent's action as one reason for invalidating an election that the company had won.[54] (Today certain "supervisors" may no longer be excluded from the bargaining unit. The employer could trigger an unfair labor practice charge if it tries to use those people to assist in its campaign.)[55]

SOME TIPS Supervisors can use the acronym TIPS to remember what *not* to do during the campaigns.[56] *Do not* Threaten, Interrogate, make Promises to, or Spy on employees (for instance, do not threaten that you will close or move the business, cut wages, reduce overtime, or lay off employees). FORE outlines what you may do. *You may* give employees Facts (like what signing the authorization card means), express your Opinion about unions, explain factually correct Rules (such as that the law permits permanently replacing striking employees), and share your Experiences about unions. The Know Your Employment Law discussion expands on this.

Know Your Employment Law: Rules Regarding Literature and Solicitation

To avoid legal problems, employers need rules governing distribution of literature and solicitation of workers, and should show supervisors how to apply them.[57] For example:

1. Employers can always bar nonemployees from soliciting employees when the employee is on duty and not on a break.
2. Employers can usually stop employees from soliciting other employees for any purpose if one or both employees are on paid-duty time and not on a break.
3. Most employers (generally not including retail stores, shopping centers, and certain other employers) can bar nonemployees from the building's interiors and work areas as a right of private property owners.[58]
4. Employers can deny on- or off-duty employees access to interior or exterior areas only if they can show the rule is required for reasons of production, safety, or discipline.

Again, such restrictions are valid only if the employer doesn't discriminate against the union. Thus, if the employer lets employees collect money for baby gifts, to sell products, or to engage in other solicitation during their working time, it may not be able lawfully to prohibit them from union soliciting during work time. Here is one example of a specific rule aimed at limiting union organizing or activity:

> Solicitation of employees on company property during working time interferes with the efficient operation of our business. Nonemployees are not permitted to solicit employees on company property for any purpose. Except in break areas where both employees are on break or off the clock, no employee may solicit another employee during working time for any purpose.[59]

Decertification Elections: Ousting the Union

Winning an election and signing an agreement don't necessarily mean that the union is in the company to stay. The same law that grants employees the right to unionize also gives them a way to terminate legally (decertify) their union's right to represent them.[60] There were about 140 such **decertification** elections in one recent year, of which unions won about 32%.[61] That's actually a more favorable win rate for employers than that for the original, representation elections.

decertification
Legal process for employees to terminate a union's right to represent them.

Decertification campaigns are similar to certification campaigns.[62] The union organizes membership meetings and house-to-house visits, mails literature into the homes, and uses phone calls, e-mails, NLRB appeals, and (sometimes) threats and harassment to win the election. Employees themselves are the only ones who can legally start the decertification process. However once started management uses meetings—including one-on-one meetings, small-group meetings, and meetings with entire units—as well as legal or expert assistance, letters, improved working conditions, and subtle or not-so-subtle threats to try to influence the votes.[63]

HR Practices around the Globe[64]: France Comes to the Workers' Aid

Globalization complicates the employer's union relations challenges. For example, employers planning to expand abroad should ponder the experience of drug maker Sanofi SA in France. Because of the relatively high cost of running its research facility in southwestern France, Sanofi told its researchers there it was closing their facility.[65] Employees began staging weekly protests, supported by the French government, which opposes profitable companies slashing jobs. After 9 months, the company was still waiting for a government report on the situation so it could finish negotiating with its unions and try to get some of them other jobs elsewhere. As one Sanofi manager said, "In France, the politics, the labor laws are extremely different than in any other regions. . . . It means that for sites like Toulouse . . . anything you want to do differently gets to be a confrontational issue."[66]

LEARNING OBJECTIVE 15-4

Illustrate with five examples bargaining that is not in good faith.

The Collective Bargaining Process

What Is Collective Bargaining?

When and if the union becomes your employees' representative, a day is set for management and labor to meet and negotiate a labor agreement. This agreement will contain specific provisions covering wages, hours, and working conditions.

collective bargaining
The process through which representatives of management and the union meet to negotiate a labor agreement.

What exactly is **collective bargaining**? According to the National Labor Relations Act:

> For the purpose of [this act,] to bargain collectively is the performance of the mutual obligation of the employer and the representative of the employees to meet at reasonable times and confer in good faith with respect to wages, hours, and terms and conditions of employment, or the negotiation of an agreement, or any question arising thereunder, and the execution of a written contract incorporating any agreement reached if requested by either party, but such obligation does not compel either party to agree to a proposal or require the making of a concession.

In plain language, this means that both management and labor are required by law to negotiate wages, hours, and terms and conditions of employment "in good faith."

What Is Good Faith?

good faith bargaining
Both parties are making every reasonable effort to arrive at agreement; proposals are being matched with counterproposals.

Good faith bargaining is the cornerstone of effective labor–management relations. It means that both parties communicate and negotiate, match proposals with counterproposals, and make a reasonable effort to arrive at an agreement. It does not mean that one party compels another to agree. Nor does it require that either party make any specific concessions (although some may be necessary).[67]

How can you tell if bargaining is *not* in good faith? Here are some examples.[68]

Surface bargaining. Going through the motions of bargaining without any real intention of completing an agreement.

Inadequate concessions. Unwillingness to compromise.

Inadequate proposals and demands. The NLRB considers the advancement of proposals to be a positive factor in determining overall good faith.

Dilatory tactics. The law requires that the parties meet and "confer at reasonable times and intervals." Obviously, refusal to meet with the union does not satisfy the positive duty imposed on the employer.

Imposing conditions. Attempts to impose conditions that are so onerous or unreasonable as to indicate bad faith.

Making unilateral changes in conditions. This is a strong indication that the employer is not bargaining with the required intent of reaching an agreement.

Bypassing the representative. The duty of management to bargain in good faith involves, at a minimum, recognition that the union representative is the one with whom the employer must deal in conducting negotiations.

Withholding information. An employer must supply the union with information, upon request, to enable it to discuss the collective bargaining issues intelligently.

Of course, requiring good faith bargaining doesn't mean that negotiations can't grind to a halt. For example, the National Football League once accused the Players Association of not bargaining in good faith, using delays to "run out the clock" so that the players could bring suit against the NFL.[69]

The Negotiating Team

Both union and management send negotiating teams to the bargaining table, and both go into the bargaining sessions having "done their homework."

First, they acquire data on which to build their bargaining positions.[70] From compensation surveys they compile data on pay and benefits, including comparisons with local pay rates and to rates for similar jobs in the industry. Data on the distribution of the workforce (in terms of traits like age and seniority, for instance) are important,

because it determines benefits. Union representatives will have sounded out union members on their desires and conferred with representatives of related unions.

Management will also "cost" the current labor contract and determine the increased cost—total, per employee, and per hour—of the union's demands. It will use information from grievances and feedback from supervisors to determine what the union's demands might be, and prepare counteroffers and arguments.[71] Other popular tactics include attitude surveys to test employee reactions to parts of the current contract that management may feel require change. There may be informal conferences with local union leaders to discuss the operational effectiveness of the contract, and to send up trial balloons on possible changes.

Costing the Contract

Collective bargaining experts emphasize the need to cost the union's demands carefully. One says,

> The mistake I see most often is [HR professionals who] enter the negotiations without understanding the financial impact of things they put on the table. For example, the union wants three extra vacation days. That doesn't sound like a lot, except that in some states, if an employee leaves, you have to pay them for unused vacation time. [So] now your employer has to carry that liability on their books at all times.[72]

voluntary (or permissible) bargaining items
Items in collective bargaining over which bargaining is neither illegal nor mandatory—neither party can be compelled against its wishes to negotiate over those items.

illegal bargaining items
Items in collective bargaining that are forbidden by law; for example, a clause agreeing to hire "union members exclusively" would be illegal in a right-to-work state.

mandatory bargaining items
Items in collective bargaining that a party must bargain over if they are introduced by the other party—for example, pay.

Bargaining Items

Labor law sets out categories of specific items that are subject to bargaining: These are mandatory, voluntary, and illegal items. As in the accompanying The New Normal box, the actual item lists will evolve.

Voluntary (or permissible) bargaining items are neither mandatory nor illegal; they become a part of negotiations only through the joint agreement of both management and union. Neither party can compel the other to negotiate over voluntary items. You cannot hold up signing a contract because the other party refuses to bargain on a voluntary item, such as benefits for retirees.

Illegal bargaining items are forbidden by law. A clause agreeing to hire union members exclusively would be illegal in a right-to-work state, for example.

Table 15-1 presents some of the 70 or so **mandatory bargaining items** over which bargaining is mandatory under the law. They include wages, hours, rest periods, layoffs, transfers, benefits, and severance pay. Others, such as drug testing, are added as the law evolves.

TABLE 15-1 Illustrative Bargaining Items

Mandatory	Permissible	Illegal
Rates of pay	Indemnity bonds	Closed shop
Hours of employment	Management rights as to union affairs	Separation of employees based on race
Overtime pay	Pension benefits of retired employees	Discriminatory treatment
Holidays	Scope of the bargaining unit	
Vacations	Including supervisors in the contract	
Severance pay	Additional parties to the contract such as the international union	
Pensions	Use of union label	
Insurance benefits	Settlement of unfair labor charges	
Profit-sharing plans	Prices in cafeteria	
Employee security	Continuance of past contract	
Job performance	Membership of bargaining team	
Union security	Employment of strikebreaker	
Drug testing of employees		

Source: Michael R. Carrell and Christina Heavrin, *Labor Relations and Collective Bargaining: Cases, Practices, and Law*, 6th edition, © 2001. Reprinted by permission of Pearson Education, Inc. Upper Saddle River, NJ.

THE NEW NORMAL

Negotiating Telecommuting and Remote Work

Unions today are increasingly involved in negotiating the details of workers' remote work, hybrid work, and telecommuting. Details include, for example, remote workers' rights to form unions, and ensuring that remote workers have the same rights as other workers (regarding things like working conditions, equal pay, and non-discrimination). Other details include negotiating how employers use surveillance tools for monitoring remote workers, and remote workers' rights to disconnect.

For example, when the American Federation of Government Employees negotiated a new contract with the Environmental Protection Agency, one of its goals was to expand its members' telecommuting rights.[73] The resulting agreements doubled the number of days employees could telecommute from two days a week to four. The agreements also introduced the idea that some employees could choose a remote location (including their homes) as their official workplace. And, the agreements expanded union employees' flextime flexibility, from 6 AM–7 PM, to 5AM–8PM, and narrowed the "core" hours they must be on the job. ■

Building Negotiating Skills

Hammering out a satisfactory labor agreement requires negotiating skills. Experienced negotiators use *leverage, desire, time, competition, information, credibility*, and *judgment* to improve their bargaining positions.[74] Things you can *leverage* include *necessity, desire, competition*, and *time*.[75] For example, the union knows that an employer who must fill a big order fast (*necessity*) is at a disadvantage.

Similarly, the employer who makes its *desires* too obvious undercuts its position. *Competition* is important too. For example it can be useful to subtly hint at closing the facility or bringing in outside workers to keep it running if need be. *Time* (particularly deadlines) can also tilt things for or against you.

"Knowledge is power" when negotiating, so having *information* is advantageous, as is *credibility*. Finally, good negotiators need *judgment*: the ability to "strike the right balance between gaining advantages and reaching compromises, in the substance as well as in the style of [their] negotiating technique."[76]

Bargaining Guidelines

Expert Reed Richardson has the following advice for bargainers:

1. Be sure to set clear objectives for every bargaining item, and be sure you understand the reason for each.
2. Do not hurry.
3. When in doubt, caucus with your associates.
4. Be well prepared with firm data supporting your position.
5. Strive to keep some flexibility in your position.
6. Don't concern yourself just with what the other party says and does; find out why.
7. Respect the importance of face saving for the other party.
8. Be alert to the real intentions of the other party—not only for goals, but also for priorities.
9. Be a good listener.
10. Build a reputation for being fair but firm.
11. Learn to control your emotions and use them as a tool.
12. As you make each bargaining move, be sure you know its relationship to all other moves.
13. Measure each move against your objectives.
14. Remember that collective bargaining is a compromise process. There is no such thing as having all the pie.
15. Try to understand the people and their personalities.[77]
16. Remember that excessive bargainer transparency and openness can backfire.[78]

Impasses, Mediation, and Strikes

impasse
Collective bargaining situation that occurs when the parties are not able to move further toward settlement, usually because one party is demanding more than the other will offer.

In collective bargaining, an **impasse** (or stalemate) occurs when the parties are not able to move further toward settlement. This usually occurs because one party is demanding more than the other will offer. For example, after reaching agreement with its unions on many issues after several months of bargaining, the Polk County (Florida) School District declared an impasse. It said that although it had negotiated in good faith with its two unions, it could not reach agreement on several issues, including wages and teacher evaluations.[79] Sometimes a third party, such as a mediator, can resolve an impasse. If the impasse is not resolved, the union may call a work stoppage, or *strike*.[80]

THIRD-PARTY INVOLVEMENT Negotiators use three types of third-party interventions to overcome an impasse. With **mediation**, a neutral third party tries to assist the principals in reaching agreement. The mediator meets with each party to determine where each stands, and then uses this information to find common ground for bargaining. When Hostess Brands couldn't reach agreement with its unions, its bankruptcy judge had them join him for a mediation session, where he tried (unsuccessfully) to broker a new contract.[81]

mediation
Intervention in which a neutral third party tries to assist the principals in reaching agreement.

fact finder
A neutral party who studies the issues in a dispute and makes a public recommendation for a reasonable settlement.

In certain situations, as in a national emergency dispute, a **fact finder** is a neutral party who studies the issues in a dispute and makes a public recommendation for a reasonable settlement.[82] Presidential emergency fact-finding boards resolved impasses in certain critical transportation disputes.

arbitration
The most definitive type of third-party intervention, in which the arbitrator usually has the power to determine and dictate the settlement terms.

Arbitration is the most definitive third-party intervention, because the arbitrator may have the power to determine and dictate the settlement terms. With *binding arbitration*, both parties are committed to accepting the arbitrator's award. With *nonbinding arbitration*, they are not. Arbitration may also be voluntary or compulsory (imposed by a government agency). In the United States, voluntary binding arbitration is the most prevalent.

interest arbitration
Arbitration enacted when labor agreements do not yet exist or when one or both parties are seeking to change the agreement.

rights arbitration
Arbitration that interprets existing contract terms, for instance, when an employee questions the employer's right to take some disciplinary action.

There are two main topics of arbitration. **Interest arbitration** centers on working out a labor agreement; the parties use it when labor agreements do not yet exist or when one or both parties are seeking to change the agreement. **Rights arbitration** really means "contract interpretation arbitration." It usually involves interpreting existing contract terms, for instance, when an employee questions the employer's right to have taken some disciplinary action.[83] Mediators will often use *alternative dispute resolution* tactics (such as asking if the parties want to take a break, or are willing to set the issue at hand aside temporarily) to head off or deal with an impasse.[84]

SOURCES OF THIRD-PARTY ASSISTANCE Various public and professional agencies make arbitrators and mediators available. For example, the American Arbitration Association (AAA) represents and provides the services of thousands of arbitrators and mediators to employers and unions. The U.S. government's Federal Mediation and Conciliation Service provides both arbitrators and mediators.[85] In addition, most states provide arbitrator and mediation services.

STRIKES A **strike** is a withdrawal of labor. There are four main types of strikes. An **economic strike** results from a failure to agree on contract terms. After one such recent strike, workers at a Kellogg plant reached agreement. A main demand was to change the plant's benefits system, which paid recent hires less than legacy employees. In a partial union win, the new agreement boosts wages, and retirement and health benefits.[86]

strike
A withdrawal of labor.

economic strike
A strike that results from a failure to agree on the terms of a contract that involves wages, benefits, and other conditions of employment.

unfair labor practice strike
A strike aimed at protesting illegal conduct by the employer.

wildcat strike
An unauthorized strike occurring during the term of a contract.

sympathy strike
A strike that takes place when one union strikes in support of the strike of another.

Unions call **unfair labor practice strikes** to protest illegal conduct by the employer. A **wildcat strike** is an unauthorized strike occurring during the term of a contract. A **sympathy strike** occurs when one union strikes in support of the strike of another union.[87] For example, in sympathy with South Korean Hyundai workers, the United Auto Workers organized a rally outside of Hyundai's technical center in Superior Township, Michigan, and took steps to hold other rallies.[88]

The likelihood of and severity of a strike depend partly on the parties' willingness to "take a strike."[89] The number of major work stoppages (strikes involving 1,000 workers or more) peaked at about 400 per year between 1965 and 1975, and recently averaged around 20 (but dropped to 5 in the 2020 pandemic year).[90]

Picketing is one of the first activities to occur during a strike. The purpose is to inform the public about the labor dispute.

SOPA Images Limited/Alamy Stock Photo

picketing
Having employees carry signs announcing their concerns near the employer's place of business.

Picketing, or having employees carry signs announcing their concerns near the employer's place of business, is one of the first activities to appear during a strike. Its purpose is to inform the public about the existence of the labor dispute and often to encourage them to refrain from doing business with the struck employer.

Employers have several options when employees strike. One is to temporarily shut down the affected area and halt operations. A second is to contract out work to blunt the effects of the strike. A third is to continue operations, perhaps using supervisors and other nonstriking workers. A fourth alternative is hiring replacements for the strikers.

Employers generally can replace strikers, with some limitations. For example, employers cannot permanently replace strikers who are protesting unfair labor practices; and they must rehire strikers who unconditionally apply for reinstatement.

HR Tools for Line Managers and Small Businesses: Strike Guidelines

As negotiations between the Hibbing Taconite Steel Plant in Minnesota and the United Steelworkers of America headed toward a deadline, the firm brought in security workers and trailers to house them.

Two experts say that, with a strike imminent, following these guidelines is advisable:

- Pay all striking employees what you owe them on the first day of the strike.
- Secure the facility. Management should control access to the property. Some employers make preparations with special strike security companies to provide security during the strike.[91]
- Notify all customers, and prepare a standard official response to all queries.
- Contact all suppliers and others who will have to cross the picket line. Establish alternative methods of obtaining supplies.
- Arrange for overnight stays in the facility and for delivered meals, if necessary.
- Notify the local unemployment office of your need for replacement workers.
- Photograph the facility before, during, and after picketing. If necessary, install video equipment to monitor picket lines.
- Record all facts concerning strikers' demeanor and activities and such incidents as violence, threats, mass pickets, property damage, or problems.
- Gather the following evidence: number of pickets and their names; time, date, and location of picketing; wording on every sign carried by pickets; and descriptions of picketers' cars and license numbers.[92]

corporate campaign
An organized effort by the union that exerts pressure on the corporation by pressuring the company's other unions, shareholders, directors, customers, creditors, and government agencies, often directly.

boycott
The combined refusal by employees and other interested parties to buy or use the employer's products.

inside games
Union efforts to convince employees to impede or to disrupt production—for example, by slowing the work pace.

lockout
A refusal by the employer to provide opportunities to work.

injunction
A court order compelling a party or parties either to resume or to desist from a certain action.

OTHER "WEAPONS" Management and labor each have other weapons to break an impasse. The union, for example, may resort to a corporate campaign. A **corporate campaign** is an organized effort by the union to exert pressure on the employer by pressuring the company's other unions, shareholders, corporate directors, customers, creditors, and government agencies.[93] Thus, the union might surprise members of the board of directors by picketing their homes and organizing a **boycott** of the company's banks.[94]

Inside games are union efforts to convince employees to impede or to disrupt production—for example, by slowing the work pace or refusing to work overtime.[95] Inside games are basically strikes—albeit "strikes" in which the company continues to pay the employees. In one inside game at a Caterpillar plant, UAW grievances rose from 22 to 336. This tied up workers and management on company time.[96]

For their part, employers can try to break an impasse with lockouts. A **lockout** is a refusal by the employer to provide opportunities to work. It (sometimes literally) locks out employees and prohibits them from doing their jobs (and being paid). Faced with a new contract that might slash their wages by 50%, Canadian Auto Workers Union employees from one Caterpillar plant found themselves locked out after negotiations failed to produce a settlement.[97]

The NLRB views lockouts as an unfair labor practice only when the employer acts for a prohibited purpose. Trying to bring about a settlement on terms favorable to the employer is not a prohibited purpose. Lockouts are not widely used; employers are usually reluctant to cease operations when employees are willing to continue working.

Employers exert other pressure. When Boeing's union resisted making concessions at its Washington assembly plant, Boeing began considering moving the assembly of its new long-range jet to a (new, non-union) plant in South Carolina. Its Washington workers approved a new agreement.[98] Employers should also be familiar with what makes some strikes illegal. For example the NLRB says striking employees who commit serious misconduct during a strike may be refused reinstatement to their previous jobs.[99]

Employers and unions can seek a court injunction if they believe the other side is causing irreparable harm to the other party. The NLRB can seek injunctions against either to halt unfair labor practices.[100] An **injunction** is a court order compelling a party or parties either to resume or to desist from a certain action.

Digital and Social Media: Unions Go Digital

When it comes to organizing, communication is key, a fact not lost on unions. They use a full range of social media including Facebook, Twitter, and YouTube to communicate with members and employees.[101] Almost all have a website, and utilize e-mail newsletters.[102] Thus the group trying to organize Starbucks workers (*Starbucks Workers' United*) has a website at https://sbworkersunited.org/.[103]

E-mail use is an evolving issue. In one organizing campaign the employer restricted the use of its electronic systems (including e-mail) to "business purposes only." The union filed objections. The NLRB first held that nonmanagement employees who normally have access to an employer's e-mail system as part of their jobs may use the system to communicate about union matters when not working, like during lunch or break times. More recently the NLRB Board reestablished the right of an employer to restrict employees' use of its e-mail system, as long as it does so on a non-discriminatory basis.[104]

The Contract Agreement

The actual contract agreement may be a 20- or 30-page document, or longer. It may contain just general declarations of policy, or detailed rules and procedures. The tendency today is toward the longer contract.

The main sections of a typical contract cover subjects such as these: (1) management rights; (2) union security and automatic payroll dues deduction; (3) grievance procedures; (4) arbitration of grievances; (5) disciplinary procedures; (6) compensation rates; (7) hours of work and overtime; (8) benefits: vacations, holidays, insurance, pensions; (9) health and safety provisions; (10) employee security seniority provisions; and (11) contract expiration date.

LEARNING OBJECTIVE 15-5
Develop a grievance procedure.

Dealing with Disputes and Grievances

Signing the labor agreement is not the last step in collective bargaining. No labor contract can cover all contingencies and answer all questions. For example, suppose the contract says you can only discharge an employee for "just cause." You subsequently discharge someone for speaking back to you. Was speaking back to you "just cause"?

The *grievance process* is the process or steps that the employer and union agreed to follow to ascertain whether some action violated the collective bargaining agreement. It is the vehicle for administering the contract day to day. However, this usually involves interpretation only, not negotiating new terms or altering existing ones. The aim is to clarify what those contract points really mean, in the context of addressing grievances regarding things like time off, disciplinary action, and pay. When the Cleveland Browns' head coach fined one of his players $1,701 for not paying the hotel's bill for a $3 bottle of water, players quickly filed grievances with the NFL.[105]

Sources of Grievances

In practice, it's probably easier to list those items that *don't* precipitate grievances than the ones that do. Employees may use just about anything involving wages, hours, or conditions of employment as the basis of a grievance.

Discipline cases and seniority problems including promotions, transfers, and layoffs would top this list. Others would include grievances growing out of job evaluations and work assignments, overtime, vacations, incentive plans, and holidays.[106] Here are three examples of grievances:

- ***Absenteeism.*** An employer fired an employee for excessive absences. The employee filed a grievance stating that there had been no previous warnings related to excessive absences.
- ***Insubordination.*** An employee on two occasions refused to obey a supervisor's order to meet with him, unless a union representative was present at the meeting. As a result, the employee was discharged and subsequently filed a grievance protesting the discharge.
- ***Plant rules.*** The plant had a posted rule barring employees from eating or drinking during unscheduled breaks. The employees filed a grievance claiming the rule was arbitrary.[107]

Grievances are often symptoms of underlying problems. Sometimes bad relationships between supervisors and subordinates are to blame: This is often the cause of grievances over "fair treatment," for instance. Organizational factors like ambiguous instructions also cause frustration and grievances. Union activism is another cause; the union may solicit grievances from workers to underscore ineffective supervision. Some people are by their nature dissatisfied and prone to complaints. Discipline and dismissal are two major sources of grievances.

The Grievance Procedure

grievance procedure
Formal process for addressing any factor involving wages, hours, or conditions of employment that is used as a complaint against the employer.

Most collective bargaining contracts contain a **grievance procedure**. It lists the steps in the procedure, time limits associated with each step, and specific rules such as "all charges of contract violation must be reduced to writing." Nonunionized employers need such procedures, too.

Grievance procedures differ from firm to firm. Some are simple, two-step procedures. Here, the grievant, union representative, and company representative meet to discuss the grievance. If they don't find a satisfactory solution, the grievance goes before a third-party arbitrator, who hears the case, writes it up, and makes a decision. Figure 15-2 shows a grievance form.

At the other extreme, grievance procedures may have six or more steps. The first step might be for the grievant and shop union rep to meet informally with the supervisor of the grievant to try to find a solution. The next steps involve the grievant and union representatives meeting with higher-level managers. Finally, if top management and the union can't reach agreement, the grievance may go to arbitration.

FIGURE 15-2 Sample Online Grievance Form

EMPLOYEE GRIEVANCE FORM

Aggrieved employee _____ Date _____

Department _____ Employee's job title _____

Employee's work e-mail address and/or other contact information _____

Statement of grievance: Briefly state what happened to lead you to grieve, including for instance situation leading to the complaint, who was involved (names and titles), when the occurrence/situation took place (date and time), and where it took place

_____

_____

_____

_____

_____

_____

_____

_____

Why do you consider this a grievance? (please check one) __Contract violation __Unfair treatment

If you checked contract violation, please list contract articles and sections you believe apply

_____

What remedy are you seeking?

_____

_____

_____

Aggrieved employee's signature _____ Date _____

HR officer signature _____ Date _____

Guidelines for Handling Grievances

The best way for a supervisor to handle a grievance is to develop a work environment in which grievances don't arise in the first place. Hone your ability to avoid, recognize, diagnose, and correct the causes of potential employee dissatisfaction (such as unfair appraisals or poor communications) before they become grievances.

Given that many factors including union pressures prompt grievances, it would be naïve to think that grievances arise only due to supervisor unfairness. However, there's little doubt that the quality of the interpersonal relations among you and your subordinates will influence your team's grievance rate. First-line supervisors must steer a course between treating employees fairly and maintaining management's rights and prerogatives. The following presents some guidelines.

HR Tools for Line Managers and Small Businesses: How to Handle a Grievance

Grievances cost money, in terms of lost work time, productivity, and (possibly) arbitrators' fees. One expert has developed a list of supervisor do's and don'ts as useful guides in handling grievances.[108] Some critical ones include:

Do:

1. Investigate and handle each case as though it may eventually result in arbitration.
2. Talk with the employee about his or her grievance; give the person a full hearing.
3. Require the union to identify specific contractual provisions allegedly violated.
4. Comply with the contractual time limits for handling the grievance.
5. Visit the work area of the grievance.
6. Determine whether there were any witnesses.
7. Examine the grievant's personnel record.
8. Fully examine prior grievance records.
9. Treat the union representative as your equal.
10. Hold your grievance discussions privately.
11. Fully inform your own supervisor of grievance matters.

Don't:

1. Discuss the case with the union representative alone—the grievant should be there.
2. Make arrangements with individual employees that are inconsistent with the labor agreement.
3. Hold back the remedy if the company is wrong.
4. Admit to the binding effect of a past practice.
5. Relinquish to the union your rights as a manager.
6. Settle grievances based on what is "fair." Instead, stick to the labor agreement.
7. Bargain over items not covered by the contract.
8. Treat as subject to arbitration claims demanding the discipline or discharge of managers.
9. Give long written grievance answers.
10. Trade a grievance settlement for a grievance withdrawal.
11. Deny grievances because "your hands have been tied by management."
12. Agree to informal amendments in the contract.

LEARNING OBJECTIVE 15-6

Give an example of cooperative labor relations.

The Union Movement Today and Tomorrow

Union membership has decreased from about 20% of the U.S. workforce in 1983 (when 17.8 million workers belonged to unions) to about 11 % (just over 14 million workers) recently.[109] (On the other hand, the percent of unionized workers actually rose slightly during the pandemic years, apparently because non-union workers were more likely to be laid off.)[110]

Several factors contributed to the long-term decline. Unions traditionally appealed mostly to blue-collar workers, and the proportion of blue-collar jobs has decreased. Globalization increased competition and pressured employers to cut costs and boost productivity, often by shifting production offshore. Other factors included the deregulation of trucking, airlines, and communications, and laws (such as occupational safety) that somewhat replaced the need for unions. Automation displaced still more blue-collar (and other) workers. The poor economy after the recession around 2008 triggered public- and private-sector budget cuts and the loss of about one million public-sector union jobs. And, bankruptcies often end with courts imposing less-favorable contract terms (such as reduced pay and benefits) on union employees.[111]

The net effect was the permanent layoff of hundreds of thousands of union members, the permanent closing of factories, the relocation of companies to nonunion settings (either in the United States or abroad), and mergers and acquisitions that eliminated union jobs and affected collective bargaining agreements. In any case, union membership as a percentage of people working has dropped over 50 years.

What Are Unions Doing About It?

Unions are not sitting idly by. For example, Change to Win (representing about 5.5 million workers) will strive, through "innovative campaigns in the private-sector economy . . . to ensure that every working person has a living wage, benefits to support their family and dignity in retirement."[112] The AFL–CIO also continues to press its case. For example it opposed new tax laws that it said would "kill jobs," and that would "slash support for health programs that benefit working families."[113]

With new, mostly millennial leaders, unions such as the News Guild have been winning dozens of newsroom campaigns at new-economy firms.[114] For example, writers at Slate and Salon joined the Writers Guild of America East.[115] Such companies may be "new," but the reasons workers join are often traditional. At Vice Media, fair wages reportedly played a big role. And when the publisher Ziff Davis bought Mashable, it laid off 50 employees; those staying may have felt they had to protect themselves.[116] In addition to traditional goals like better pay, these unions have expanded their goals, to include things like protecting gender-nonconforming employees.

Unions are also adopting their corporate targets' names.[117] Unions traditionally adopted industry-centric names such as "Transport Workers Union of America." These unions aimed to organize all employees in the industry. Today, some unions (including the Amazon Labor Union) are instead appealing to the unique concerns of specific companies' workers, by using their companies' names. For example the Starbucks Workers United successfully organized units of its target company.

Unions today are also focusing not just on what's best for their members but for society as a whole: some call this, "Bargaining for the Common Good (BCG)."[118] The unions join with stakeholders such as racial justice and community groups to campaign for societal improvements. Thus the United Teachers of Los Angeles joined with students, parents, and teachers in a campaign called "Vision to Support Every Student." It successfully pressured government to reduce class sizes and to add more school nurses and counsellors.

And unions are increasingly coordinating their efforts. For example, to support its efforts to unionize Nissan autoworkers in the United States, the UAW enlisted union members in Brazil to picket Nissan dealerships there.[119] As another example, UNI-Global Union is an international union federation whose membership consists of various national unions. As UNI-Global says, " . . . in today's global workplace it's no longer enough to have only local unions. It is now necessary for those unions to affiliate to a global union for representation on an international scale."[120]

RECENT TRENDS IN LABOR LAWS Support for unions has always ebbed and flowed with political and societal changes in America. For example, in 2014 the NLRB published its Final Rule on so-called quickie union elections. By letting unions call elections as little as 13 days after filing a representation petition, this would make it more difficult for employers to present their arguments against the union.[121] Then in 2021, the U.S. Supreme Court decided a case, *Cedar Point Nursery v. Hassid*. The decision will make it easier for some employers to resist unions, at least in California.[122] California was unique in having a law that let unions meet with farmworkers on the farms where they work (with certain limitations). In its decision, the Court ruled that unions could no longer physically enter the farm property to speak with the workers. The Court's vote, along party lines, may suggest the Court will be somewhat more pro-employer for some time.

Cooperative Labor–Management Relations

News reports tend to highlight adversarial labor–management relations, but the history of labor–management relations is also sprinkled with cooperation.

For example, more than 50 years ago, General Motors and Toyota created a joint venture they called New United Motor Manufacturing Inc. (NUMMI). NUMMI reopened a former GM plant (in what today produces Tesla automobiles) in Fremont, California. The GM plant had suffered from such poisonous labor relations that GM had to close it.[123] NUMMI and the UAW agreed that management and labor would work together, give workers a voice in decision making, and build the highest-quality cars at the lowest cost.

Since then, many such agreements have contained cooperative clauses. These clauses include a statement of commitment to cooperate, setting up committees to review mutual concerns, and guarantees of employment security. But with or without such contractual clauses, there's little doubt, as one study argues, that unions "that have a cooperative relationship with management can play an important role in overcoming barriers to the effective adoption of practices that have been linked to organizational competitiveness."[124]

STRATEGIC CONTEXT: WALMART'S EVOLVING LABOR RELATION POLICIES

Even in the same industry, some companies are more resistant to unions. In retailing, Walmart's U.S. employees are not unionized, while many of Costco's are.[125]

Different strategies help explain this. Walmart aims to be the low-cost leader. It drives down purchasing, site location, distribution, and personnel costs, so as to keep prices down.[126] Costco takes a different route. It counters Walmart's low labor costs by getting higher productivity from higher-paid and hopefully more engaged employees, and by emphasizing superior employee relations. (Costco also charges shoppers a membership fee.)[127]

Today, Walmart's strategy has been evolving, for several reasons. Amazon was pressuring it on prices. Amazon was even taking a somewhat more open stance regarding unions. Particularly during the pandemic, the U.S. labor market tightened, making hiring more challenging. Negative stories about "below living wage" wages undermined Walmart's appeal for many consumers. For several years Walmart's year-on-year same-store sales drifted down. Its top management had to do something.

Walmart tweaked its strategy in several ways. One was its decision to buy jet.com, in a successful bid to expand its online efforts. Second, it instituted new HR policies. It raised average employees' hourly wages to $15 per hour.[128] It instituted a new "Pathways" training program to help employees plan Walmart careers. It gave employees more choice in scheduling their hours.

Results are promising. Corporate and same-store sales are rising, profits are up, associates' feedback is good, and employment applications are up.

Chapter Review

Chapter Section Summaries

15-1. The **labor movement** is important. About 15 million U.S. workers belong to unions—about 11% of the total. Workers unionize not just to get more pay or better working conditions; employer unfairness and the union's power are also important. Unions aim for union security, and then for improved wages, hours, and working conditions and benefits for their members. Union security options include the closed shop, union shop, agency shop, preferential shop, and maintenance of membership arrangement.

15-2. To understand how to deal with unions, one should understand labor law and **unfair labor practices.** The laws encouraging the union movement included the Norris–LaGuardia and National Labor Relations (Wagner) Acts of the 1930s. These outlawed certain unfair employer labor practices and made it easier for unions to organize. The Taft–Hartley or Labor Management Relations Act of 1947 addressed keeping unions from restraining or coercing employees, and listed certain unfair union labor practices. In the 1950s, the Landrum–Griffin Act (the Labor Management Reporting and Disclosure Act) further protected union members from possible wrongdoing on the part of their unions.

15-3. When unions begin organizing, any manager may get involved, so one must understand the mechanics of **the union drive and election.** The main steps include initial contact, obtaining authorization cards, holding a hearing, the campaign itself, and the election. Supervisors can follow the acronym TIPS—do not Threaten, Interrogate, make Promises, or Spy. And follow FORE—provide Facts, express your Opinions, explain factually correct Rules, and share your Experiences.

15-4. The employer and union hammer out an agreement via the **collective bargaining process.** The heart of collective bargaining is good faith bargaining, which means both parties must make reasonable efforts to arrive at agreement, and proposals are matched with counterproposals. There are mandatory bargaining items such as pay, illegal bargaining items, and voluntary bargaining items such as benefits for retirees. If things don't go smoothly during bargaining, the parties may utilize third-party intermediaries, including mediators, fact finders, and arbitrators. Strikes represent a withdrawal of labor.

15-5. A manager may become involved with **disputes and grievances.** Collective bargaining agreements contain a specific grievance procedure listing the steps in the procedure. The best way to handle a grievance is to create an environment in which grievances don't occur. If one does occur, investigate, handle each case as though it may lead to arbitration, talk with the employee about the grievance, and comply with the contractual grievance-handling time limits.

15-6. Union federations, such as Change to Win, continue to be aggressive about organizing workers, and unions are going global, so **cooperative labor relations** is both possible and a sensible aim.

Discussion Questions

15-1. Why do employees join unions? What are the advantages and disadvantages of being a union member?

15-2. Discuss four sure ways to lose an NLRB election.

15-3. Briefly illustrate how labor law has gone through a cycle of repression and encouragement.

15-4. Explain in detail each step in a union drive and election.

15-5. Define *impasse, mediation*, and *strike*, and explain the techniques that are used to overcome an impasse.

Individual and Group Activities

15-6. You are the manager of a small manufacturing plant. The union contract covering most of your employees is about to expire. Working individually or in groups, discuss how to prepare for union contract negotiations.

15-7. Working individually or in groups, use Internet resources to find situations where company management and the union reached an impasse at some point during their negotiation process, but eventually resolved the impasse. Describe the issues on both sides that led to the impasse. How did they move past the impasse? What were the final outcomes?

15-8. The HRCI *Exam Content Outline* website https://www.hrci.org/docs/default-source/web-files/phr-exam-content-outline.pdf?sfvrsn=13c44f61_28 lists the knowledge someone studying for the HRCI PHR certification exam needs to have in each area of human resource management (such as in Business Management, and in Talent Planning and Acquisition.)[129] In groups of several students, do four things: (1) review the *Exam Content Outline* on that website; (2) identify the material in this chapter that relates to the Exam Content Outline's required "Knowledge Of" lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.

15-9. Housing Works is a New York non-profit company. It started in the early 1990s to find housing for people who were homeless and had HIV. It now also runs over a dozen Housing Works thrift shops, while offering expanded services to the homeless.[130] Given Housing Works' progressive mission, the Retail, Wholesale and Department Store Union expected to find a welcoming environment when it came to organize. Instead, the company hired a labor lawyer to help it resist the union. And, it refused to remain neutral with respect to resisting the union's efforts. For its part, Housing Works' CEO says his employees already earn more than employees in comparable organizations. He also says he maintains an open door policy that enables workers to easily access management with suggestions and grievances. How would you explain that such a progressive company would resist unionization? What argument would you make for it to be more welcoming of the union?

Experiential Exercise

The Organizing Campaign at Sam's Cupcake Shop

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Purpose: The purpose of this exercise is to give you practice in dealing with some of the elements of a union-organizing campaign.[131]

Required Understanding: You should be familiar with the material covered in this chapter, as well as the following incident, "The Organizing Campaign at Sam's Cupcake Shop."

Incident: Sam's Cupcake Shop sells baked goods (croissants, cupcakes, rolls, cakes, etc.) and serves light meals such as breakfast and salads through its chain of ten small retail stores in the borough of Manhattan, in New York City. Each store is staffed with about 9 employees (plus one manager), some of whom do the cooking and some of whom staff the counter and sell the food items. As with Sam's other stores, the one on First Avenue is staffed mostly with people paid at or just above the minimum wage. Everything at the First Avenue store seemed to be going smoothly, but that ended abruptly on July 27, 2021. That was the day that Roger, the First Avenue store's manager, called Anesha, Sam's Cupcake's human resource manager, to tell her that they had "an employee problem."

The problem, Roger said, was that he'd heard from a few employees that the Service Employees International Union was trying to organize Sam's Cupcake Shop employees. Anesha's first reaction was one of caution, particularly because food service employees are historically difficult to organize—"they don't stay in their jobs long enough to unionize them," to paraphrase one union leader.[132] Unfortunately, Roger said he had already taken what he called "sensible steps" to blunt the unionization effort. First, he had explained to the employees that if costs went up because they unionized, then "we'd probably have to close this shop." He also promised better work schedules if they "ignored" the union, and told them they were prohibited from discussing union matters during work time. "And don't worry," he said to Anesha, "I've got a list of the employees who are pushing for the union."

The more Roger talked, the more concerned Anesha became, not just with the union but with the possible consequences of Roger's efforts. She wondered particularly what problems Roger's actions could cause for Sam's Cupcakes with the NLRB.

She didn't have long to wait for an answer. The following week pickets from the union and its supporters appeared in front of the First Avenue store carrying signs decrying the company's "unfair labor practices." At that point Sam came into Anesha's office and said, "If they think they can railroad me into giving them big raises they are wrong; I am closing that store down." Anesha had to decide how to reply to Sam, and in general, what she should do.

How to Set Up the Exercise/Instructions: Divide the class into groups of several students. Assume that you are labor relations consultants retained by Anesha to identify the problems and issues involved and to advise Roger and Sam of the company's rights and obligations, as well as the implications of what's transpired so far, and finally what to do next. Each group will spend the time allotted discussing the issues. Then, outline those issues, as well as an action plan for Sam and Roger. What should they do next? Can Sam really close the store down?

If time permits, a spokesperson from each group should list on the board the issues involved and the group's recommendations.

Application Case

Organizing New Media Employees at Vice Media

Written and copyrighted by Gary Dessler, PhD.

Several years ago, Vice Media and the Writers Guild of America (WGA) agreed on a contract covering about 70 people in Vice Media digital businesses.[133] Then a year later, another 430 Vice Media employees voted to unionize. Many of them work on video content for Vice.com and Vice-branded HBO programs. Some joined the WGA East, and some the Motion Pictures Editors Guild. With "new media" growing fast, what's happening at Vice Media illustrates the union challenges new media firms face today.

Vice Media began as an edgy magazine in the 1990s. Today, in addition to its print arm, it has morphed into an online news source with channels including Noisey and Motherboard (www.vicemediagroup.com/), a Viceland cable channel (among others), and mobile platforms. Walt Disney Company made a $400 million investment in Vice, and Vice Media also got a $450 million investment from a private equity firm. Some of this new money will go to developing scripted programming for Vice's Viceland cable channel and mobile platforms. In any case, it's obvious that, as at other new-media firms like Buzzfeed and Vox, content creators—writers, editors, and so on—are the lifeblood of the company. That makes labor relations a central issue for companies like these.

For unions, the new-media workforce represents one of the best opportunities in years for union membership to start growing again. Unions like the WGA are therefore pursuing these employees. In doing so, they're emphasizing the things millennial workers seem to care about the most, not just wage increases, but editorial independence and diversity.

To help unionize firms like these, unions are holding networking events, and headlining them with employees from new-media firms that they've organized. For example, one union let unionized writers from *The Daily Show* explain the advantages of union membership.

Some new-media companies (including Vice Media) were fairly welcoming of the unions, while others were more combative. For example, Buzzfeed's CEO reportedly took a strong stance against the "adversarial" nature of unionization.

Therefore, things don't always go well for new-media employees who do organize. For example, the owner of Gothamist and DNAinfo closed both sites after employees voted to unionize. The owner had warned that it was already running both sites at a loss.

Unions and new-media employers therefore have to understand what new-media employees—many or most of whom are millennials—want from employers. And it turns out that what they want isn't that different from what workers have always wanted. In addition to editorial independence, they want good pay and benefits, fair treatment, and the ability to be heard.

Employers who hoped that the glamour of writing for a fast-growing new-media firm might be enough to keep workers from unionizing were wrong. For one thing (to paraphrase one Vice Media channel editor), after Mashable laid off 50 employees and Buzzfeed fired 100, anxiety began prompting employees to unionize. Many (or most) of these employees went to good schools and got good jobs, only to find that journalists' average pay is low and turnover is high: Many were on their second or third jobs just a few years after college. It's probably not surprising that one study found that 46% of people 30 and over view unions favorably, while 55% of those 18 to 29 have favorable views.

Furthermore, both the new-media firms and their employees have evolved. For example, many firms, including Vice Media, began as groups anxious to push the boundaries of new media. But as they and their employees aged, the writers and employees wanted more stability.

Questions

15-10. The WGA did not have to call a strike at Vice. Why do you think that is? If they struck, what employer tactics would you have suggested as a good response once the strike began?

15-11. What do you think accounts for the fact that Vice Media agreed fairly quickly to recognize the union, whereas other new-media firms simply closed down? What does this mean for unions like the WGA?

15-12. The organizing campaigns at new-media firms like Vice and Buzzfeed are essentially conflicts between professional and creative people (the WGA) and owners and TV and movie producers. Do you think such conflicts are different in any way than are the conflicts between, say, the United Autoworkers or Teamsters unions against auto and trucking companies? Why?

15-13. If you owned a start-up new-media company, how would you react to a union coming in to demand recognition, and why?

CHAPTER 15

Continuing Case

Carter Cleaning Company

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The Grievance

On visiting one of Carter Cleaning Company's stores, Jennifer was surprised to be taken aside by a long-term Carter employee, who met her as she was parking her car. "Murray (the store manager) told me I was suspended for 2 days without pay because I came in late last Thursday," said George. "I'm really upset, but around here the store manager's word seems to be law, and it sometimes seems like the only way anyone can file a grievance is by meeting you or your father like this in the parking lot." Jennifer was very disturbed by this revelation and promised the employee she would look into it and discuss the situation with her father. In the car heading back to headquarters, she began mulling over what Carter Cleaning Company's alternatives might be.

Questions

15-14. Do you think it is important for Carter Cleaning Company to have a formal grievance process? Why or why not?

15-15. Based on what you know about the Carter Cleaning Company, outline the steps in what you think would be the ideal grievance process for this company.

15-16. In addition to the grievance process, can you think of anything else that Carter Cleaning Company might do to make sure grievances and complaints like this one are expressed and are heard by top management?

Translating Strategy into HR Policies and Practices Case*,§

**The overall strategy map on the inside back cover of this text outlines the relationships involved.*

Improving Performance at the Hotel Paris

The Hotel Paris's New Labor Relations Practices

The Hotel Paris's competitive strategy is "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy and boost performance by eliciting the required employee behaviors and competencies.

Lisa Cruz's parents were union members, and she had no strong philosophical objections to unions, per se. However, as the head of HR for the Hotel Paris, she did feel very strongly that her employer should do everything legally possible to remain union-free. She knew that this is what the hotel chain's owners and top executives wanted, and she felt that achieving their strategic goals would be best accomplished by staying union-free. Furthermore, some evidence seemed to support their position. At least one study that she'd seen concluded that firms with 30% or more of their eligible workers in unions were in the bottom 10% in terms of performance, while those with 8% to 9% of eligible workers in unions scored in the top 10%.[134] The problem was that the Hotel Paris really had no specific policies and procedures in place to help its managers and supervisors deal with union activities. With all the laws regarding what employers and their

managers could and could not do to respond to a union's efforts, Lisa knew her company was "a problem waiting to happen." She turned her attention to deciding what steps she and her team should take with regard to labor relations and collective bargaining.

Lisa and the CFO knew that unionization was a growing reality for the Hotel Paris. Some of the hotel chain's U.S. employees were already unionized, and unions in this industry were quite active. For example, as they were surfing the Internet to better gauge the situation, Lisa and the CFO came across the website from the Hotel Employees Restaurant Union, Local 26. It describes their success in negotiating a contract at several local hotels including ones managed by the Westin and Hilton chains. The CFO and Lisa agreed that it was important that she and her team develop and institute a new set of policies and practices that would enable the Hotel Paris to deal more effectively with unions.

Together with a labor–management attorney, the team developed a 20-page "What You Need to Know When the Union Calls" manual for Hotel Paris managers and supervisors. This contained three sets of information. First, it provided a succinct outline of *labor relations law*, particularly as it relates to the company's managers. Second, it laid out a *detailed set of guidelines* regarding what supervisors could and could not do with respect to union-organizing activities. Third, it identified all line supervisors as the company's "*first-line eyes and ears*" with respect to union organizing activity. Here, the manual provided examples of activities that might suggest that a union was trying to organize the hotel's employees, and whom the supervisor should notify.

Lisa and her team also decided to ensure that the company was responsive to its employees' concerns. Lisa and her team believed that many of the steps they'd taken earlier should help. For example, improving salaries and wages, providing financial incentives, and instituting the new ethics, justice, and fairness programs already seemed to be having a measurable effect on employee morale.

Questions

15-17. List and briefly describe what you believe are the three most important steps Hotel Paris management can take now to reduce the likelihood unions will organize more of its employees.

15-18. Write a detailed two-page outline for a "What You Need to Know When the Union Calls" manual. Lisa will distribute this manual to her company's supervisors and managers, telling them what they need to know about looking out for possible unionizing activity, and how to handle actual organizing process-related supervisory tasks.

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Writing Assignments

15-19. Describe important tactics you would expect the union to use during the union drive and election.

15-20. Why would you say workers join unions, and what would you as a manager do to make it less likely your employees would want to join a union at your workplace?

Key Terms

closed shop, 477
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Endnotes

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16 Safety, Health, and Risk Management

WHERE ARE WE NOW . . .

The main purpose of this chapter is to provide you with knowledge managers need to reduce workplace safety and health problems. The main topics we discuss are **Safety and the Manager; Manager's Briefing on Occupational Safety Law; What Causes Accidents; How to Prevent Accidents; Employee Engagement Guide for Managers; Workplace Health Hazards: Problems and Remedies;** and **Occupational Security and Risk Management**.

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

16-1 **Explain** the supervisor's role in safety.

16-2 **Explain** the basic facts about safety law and OSHA.

16-3 **Answer** the question, "What causes accidents?"

16-4 **List and explain** five ways to prevent accidents at work.

16-5 **Describe** how one company uses employee engagement to improve workplace safety.

16-6 **List** five workplace health hazards and how to deal with them.

16-7 **Discuss** the prerequisites for a security plan and how to set up a basic security program.

When it comes to safety strategy, the explosion on British Petroleum's (BP's) Deepwater Horizon rig in the Gulf of Mexico still epitomizes what can go wrong. The blast took the lives of 11 workers.[1] Reports from the scene said a malfunctioning blowout preventer failed to activate, causing the disaster. Past critics of BP's safety practices weren't so sure. Even ten years later, the millions of gallons of crude oil it spewed into the gulf were still harming wildlife.

LEARNING OBJECTIVE 16-1

Explain the supervisor's role in safety.

Introduction: Safety and the Manager

Why Safety Is Important

Safety and accident prevention concern managers for several reasons, one of which is the staggering number of workplace accidents. For example, in one recent year in the United States, at least 4,764 people died at work, and about 2.7 million suffered occupational injuries and illnesses.[2]

Such figures probably underestimate injuries and illnesses by two or three times.[3] And they ignore the suffering the accidents cause the employee and his or her loved ones.[4]

Safety also affects costs and profits, as the accompanying Profit Center feature illustrates.

HR AS A PROFIT CENTER

Improving Safety Boosts Profits

Many people assume that when employers economize on safety the money they save boosts profits, but that's not the case.[5] For one thing, poor safety practices raise wage rates, because wage rates are higher on jobs with riskier working conditions, other things equal.[6] And poor safety and the injuries and illnesses it begets actually drive up costs, including medical expenses, workers' compensation, and lost productivity.[7] The National Safety Council reports that each lost-time injury or illness costs an average of $37,000, and each occupational fatality more than $1.3 million.[8]

Consider some evidence. One study found a 9.4% drop in injury claims and a 26% average savings on workers' compensation costs over 4 years in companies inspected by California's occupational safety and health agency.[9] An older survey of chief financial officers concluded that for every one dollar invested in injury prevention, the employer earns two dollars; 40% said "productivity" was the top benefit of effective workplace safety.[10] One forest products company saved over $1 million over 5 years by investing only about $50,000 in safety improvements and employee training. In the United States, work-related hearing loss costs employers about $242 million a year in workers' compensation claims alone, costs that are probably avoidable through earmuffs, earplugs, and training.[11] So one of the easiest ways to cut costs and boost profits is to spend money improving safety. ■

Injuries aren't just a problem in dangerous industries like construction. For example, computers contribute to airtight "sick building" symptoms like headaches. And 3-D printers can produce ultrafine particles that penetrate lungs.[12] (Therefore, don't hover while it's working; set nozzle temperatures low; and check emission levels before buying.)

Top Management's Role in Safety

Several years ago an energy company's CEO was convicted for the deaths of 29 workers in a coal mine.[13] His conviction highlights the fact that the people at the top—the CEO, president, and board members—are responsible for and must set the tone for occupational safety.[14]

We will see that reducing accidents often boils down to reducing accident-causing conditions and accident-causing acts. However, telling employees to "work safely" is futile unless everyone knows that management takes safety seriously.[15] Historically, for instance, Milliken & Company's accident rate has been lower than that of the chemical industry as a whole. Its safety record largely reflects Milliken's organizational commitment to safety, as reflected in this quote from a Milliken company blog:

> We've all heard the saying, "lead by example," and when it comes to creating a successful safety culture, this saying still rings true. In fact, the tone for safety is usually set from the top. Moving safety from "just another program" to an uncompromised value within the organization that everyone respects and follows will ensure its success.[16]

In sum, the safety commitment should come from the top. For example, Amazon's founder Jeff Bezos recently said, "we have always wanted to be Earth's most customer centric company." [Now we're also], ". . . going to be Earth's best employer and Earth's safest place to work."[17] Employers should then institutionalize their commitment with a safety policy, publicize it, and give safety matters high priority. For example, Louisiana-Pacific Corp. starts all meetings with a brief safety message. Amazon warehouse workers have daily "safety huddles" to discuss safety.[18]

The Strategic Context: Deepwater Horizon

To critics of BP's safety practices, the Deepwater Horizon disaster in the Gulf wasn't just due to a malfunctioning blowout preventer.[19] To them, rightly or wrongly, the accident reflected the fact that BP's corporate strategy had long emphasized cost-cutting and profitability at the expense of safety. For example, 5 years earlier, a report by the Chemical Safety Board blamed a huge blast at BP's Texas City, Texas, oil refinery on cost-cutting, and on a safety strategy that aimed to reduce accidents but left in place "unsafe and antiquated equipment." To that board and to some others who studied BP's safety practices, Deepwater was another example of how encouraging safe employee behavior must start at the top, and how top management's strategy can trump even earnest efforts to improve employee safety behaviors.[20] A subsequent movie, *Deepwater Horizon*, depicts a BP executive, visiting the rig and annoyed by drilling delays, pressing the crew to ignore test results that in fact accurately showed the rig about to blow.

The Supervisor's Role in Accident Prevention

After inspecting a work site in which workers were installing sewer pipes in a 4-foot trench, the Occupational Safety & Health Administration (OSHA) inspector cited the employer for violating the OSHA rule requiring employers to have a "stairway, ladder, ramp or other safe means of egress."[21] In the event the trench caved in, workers needed a quick way out.[22]

As in most such cases, the employer had the primary responsibility for safety, but the local supervisor was responsible for day-to-day inspections.[23] Here, the supervisor did not properly do his daily inspection. The trench did cave in, injuring workers (and, secondarily, costing his company many thousands of dollars).

Whether you're an IT department manager in a *Fortune* 500 company or managing an excavation or dry-cleaning store, daily safety inspections should be part of your routine. As one safety recommendation put it, "a daily walk-through of your workplace—whether you are working in outdoor construction, indoor manufacturing, or any place that poses safety challenges—is an essential part of your work."[24]

What to look for depends on the workplace. For example, construction sites and dry-cleaning stores have hazards all their own. But in general, you can use a checklist of unsafe conditions such as the one in Figure 16-6 to spot problems. We present another, more extensive checklist in Figure 16-8 at the end of this chapter. (Note: Please stop what you are reading and look around where you are now: Can you list four potential safety hazards?)

LEARNING OBJECTIVE 16-2

Explain the basic facts about safety law and OSHA.

Manager's Briefing on Occupational Safety Law

Occupational Safety and Health Act of 1970
The law passed by Congress in 1970 "to assure so far as possible every working man and woman in the nation safe and healthful working conditions and to preserve our human resources."

Congress passed the **Occupational Safety and Health Act of 1970**[25] "to assure so far as possible every working man and woman in the nation safe and healthful working conditions and to preserve our human resources."[26] The only employers it doesn't cover are self-employed persons, farms in which only immediate members of the employer's family work, and some workplaces already protected by other federal agencies or under other statutes. The act covers federal agencies, but usually not state and local governments.

The act created the **Occupational Safety and Health Administration (OSHA)** within the Department of Labor. OSHA's basic purpose is to administer the act and to set and enforce the safety and health standards that apply to almost all workers in

Occupational Safety and Health Administration (OSHA)
The agency created within the Department of Labor to set safety and health standards for almost all workers in the United States.

the United States. OSHA has about 2,200 inspectors working from branches around the country.[27] Its exact enforcement emphasis was recently in flux. However, OSHA and many employers continue to emphasize OSHA's cooperative programs, such as its Voluntary Protection Program (VPP). VPP exempts from routine inspections those employers who have OSHA-approved policies and programs *and* below-average injury and illness rates.[28]

OSHA Standards and Record Keeping

OSHA operates under the "general" standard clause that each employer:

> . . . shall furnish to each of his [or her] employees employment and a place of employment which are free from recognized hazards that are causing or are likely to cause death or serious physical harm to his [or her] employees.

To carry out this basic mission, OSHA promulgates detailed legally enforceable standards. (Employers also follow standards from the International Safety Equipment Association and from the American National Standards Institute.)[29] Figure 16-1 shows part of the OSHA standard governing scaffold handrails.[30] Twenty-eight states also have their own state safety and health laws and agencies. These ". . . must be at least as effective" as the federal guidelines.[31]

FIGURE 16-1 OSHA Standards Example

Source: From Occupational Safety and Hazard Administration (OSHA). Retrieved from https://www.osha.gov/pls/oshaweb/owadisp.show_document?p_table=STANDARDS&p_id=9720.

> Guardrails not less than 2″ × 4″ or the equivalent and not less than 36″ or more than 42″ high, with a midrail, when required, of a 1″ × 4″ lumber or equivalent, and toeboards, shall be installed at all open sides on all scaffolds more than 10 feet above the ground or floor. Toeboards shall be a minimum of 4″ in height. Wire mesh shall be installed in accordance with paragraph [a] (17) of this section.

OSHA regulations don't just list standards to which employers should adhere, but "how." For example, OSHA's respiratory protection standard also covers testing. Thus, faced with a respirator shortage in 2020, OSHA let employers switch from a more precise quantitative fit test, to a qualitative one, temporarily.[32]

occupational illness
Any abnormal condition or disorder caused by exposure to environmental factors associated with employment.

Under OSHA, employers with 11 or more employees must maintain records of and report certain occupational injuries and occupational illnesses. An **occupational illness** is any abnormal condition or disorder caused by exposure to environmental factors associated with employment. This includes acute and chronic illnesses caused by inhalation, absorption, ingestion, or direct contact with toxic substances or harmful agents.

WHAT THE EMPLOYER MUST REPORT Employers must report *all* occupational illnesses.[33] As in Figure 16-2,[34] they must also report most occupational injuries, specifically those that result in medical treatment (other than first aid), loss of consciousness, restriction of work (one or more lost workdays), restriction of motion, or transfer to another job.[35] If an on-the-job accident results in the death of an employee or a work-related hospitalization, amputation, or loss of an eye, all employers, regardless of size, must report the accident to the nearest OSHA office. Report fatalities within 8 hours. Report an in-patient hospitalization, amputation, or eye loss within 24 hours.[36]

Similarly, OSHA's record-keeping requirements are broad.[37] Examples of recordable conditions include any work-related fatality; any work-related injury or illness that results in loss of consciousness, days away from work, restricted work, or transfer to another job; and any work-related injury or illness requiring medical treatment beyond first aid.

Figure 16-3 shows the OSHA form for reporting occupational injuries or illness.

Inspections and Citations

OSHA enforces its standards through inspections and (if necessary) citations. The inspection is usually unannounced. OSHA may *not* conduct warrantless inspections without the employer's consent.[38] It may inspect with an authorized search warrant.[39]

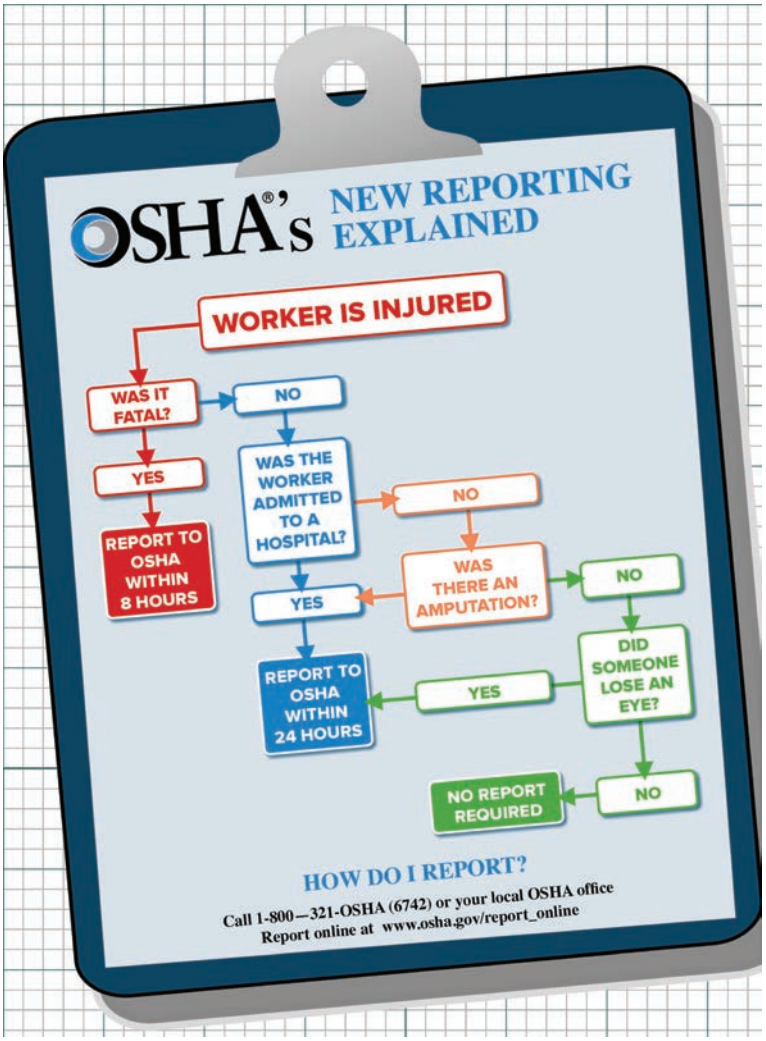


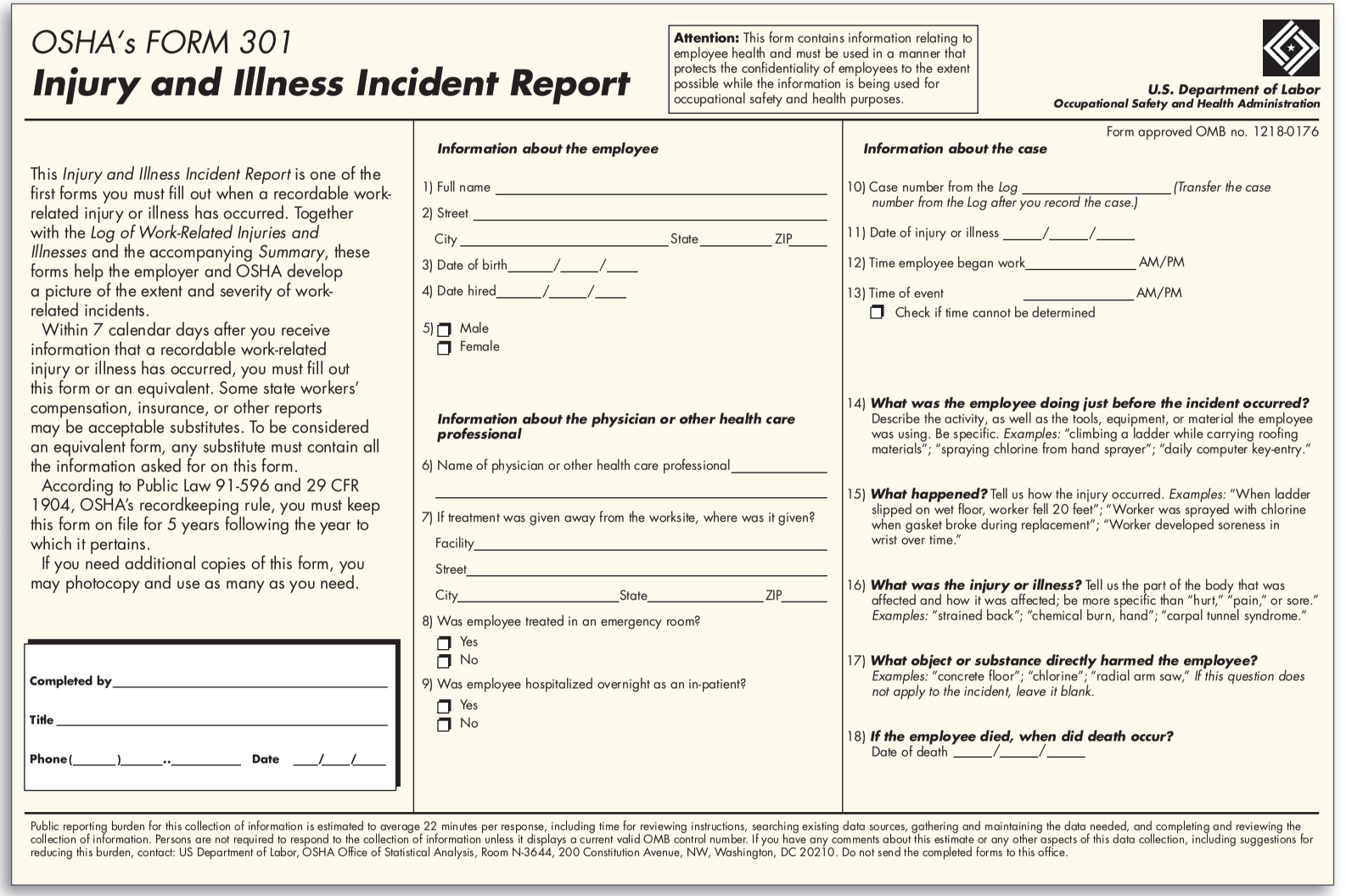
FIGURE 16-2 What Injuries Must Be Reported Under the Occupational Safety and Health Act (OSHA)?

Source: https://www.osha.gov/recordkeeping2014/blog-OSHA-flow.pdf; https://www.osha.gov/recordkeeping/, accessed April 23, 2022.

INSPECTION PRIORITIES In inspections, OSHA takes a "worst-first" approach. Priorities include, from highest to lowest, imminent dangers, severe injuries and illnesses, worker complaints, referrals of hazards from other agencies, targeted high-hazard industries inspections, and follow-up inspections.[40] In one recent year, OSHA conducted about 33,393 inspections, and there were about 42,063 state inspections.[41] OSHA publicly posts employers' safety and health data in an effort to encourage safer practices.[42] With a limited number of inspectors, historically OSHA has focused on "fair and effective enforcement," education and compliance assistance, and cooperative programs (such as its Voluntary Protection Programs).[43]

OSHA conducts an inspection within 24 hours when a complaint indicates an immediate danger, and within 3 working days when a serious hazard exists. For a "nonserious" complaint filed in writing by a worker or a union, OSHA will respond within 20 working days.[44] OSHA handles other nonserious complaints by writing to the employer and requesting corrective action.

THE INSPECTION The inspection begins when the OSHA officer arrives at the workplace.[45] The inspector displays credentials and asks to meet an employer representative. (The credentials must include photograph and serial number.) Employers should be proactive in asserting their rights to accompany the inspector.[46] (However, note that anything you say or admit can be used to show the company violated an OSHA standard). The officer explains the visit's purpose, the scope of the inspection, and the standards that apply. An authorized employee representative can accompany the officer during the inspection. The inspector can also stop and question workers (in private,



OSHA's FORM 301

Injury and Illness Incident Report

Attention: This form contains information relating to employee health and must be used in a manner that protects the confidentiality of employees to the extent possible while the information is being used for occupational safety and health purposes.

U.S. Department of Labor
Occupational Safety and Health Administration

Form approved OMB no. 1218-0176

This *Injury and Illness Incident Report* is one of the first forms you must fill out when a recordable work-related injury or illness has occurred. Together with the *Log of Work-Related Injuries and Illnesses* and the accompanying *Summary*, these forms help the employer and OSHA develop a picture of the extent and severity of work-related incidents.

Within 7 calendar days after you receive information that a recordable work-related injury or illness has occurred, you must fill out this form or an equivalent. Some state workers' compensation, insurance, or other reports may be acceptable substitutes. To be considered an equivalent form, any substitute must contain all the information asked for on this form.

According to Public Law 91-596 and 29 CFR 1904, OSHA's recordkeeping rule, you must keep this form on file for 5 years following the year to which it pertains.

If you need additional copies of this form, you may photocopy and use as many as you need.

Completed by _____

Title _____

Phone (_____)_____-_____ **Date** ___/___/____

Information about the employee

1) Full name _____

2) Street _____

City _____ State _____ ZIP____

3) Date of birth_____/_____/____

4) Date hired_____/_____/____

5) ❒ Male
❒ Female

Information about the physician or other health care professional

6) Name of physician or other health care professional _____

_____

7) If treatment was given away from the worksite, where was it given?

Facility_____

Street_____

City_____State_____ZIP_____

8) Was employee treated in an emergency room?
❒ Yes
❒ No

9) Was employee hospitalized overnight as an in-patient?
❒ Yes
❒ No

Information about the case

10) Case number from the *Log* _____ *(Transfer the case number from the Log after you record the case.)*

11) Date of injury or illness _____/_____/_____

12) Time employee began work_____ AM/PM

13) Time of event _____ AM/PM
❒ Check if time cannot be determined

14) ***What was the employee doing just before the incident occurred?*** Describe the activity, as well as the tools, equipment, or material the employee was using. Be specific. *Examples:* "climbing a ladder while carrying roofing materials"; "spraying chlorine from hand sprayer"; "daily computer key-entry."

15) ***What happened?*** Tell us how the injury occurred. *Examples:* "When ladder slipped on wet floor, worker fell 20 feet"; "Worker was sprayed with chlorine when gasket broke during replacement"; "Worker developed soreness in wrist over time."

16) ***What was the injury or illness?*** Tell us the part of the body that was affected and how it was affected; be more specific than "hurt," "pain," or sore." *Examples:* "strained back"; "chemical burn, hand"; "carpal tunnel syndrome."

17) ***What object or substance directly harmed the employee?*** *Examples:* "concrete floor"; "chlorine"; "radial arm saw," *If this question does not apply to the incident, leave it blank.*

18) ***If the employee died, when did death occur?***
Date of death _____/_____/_____

Public reporting burden for this collection of information is estimated to average 22 minutes per response, including time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Persons are not required to respond to the collection of information unless it displays a current valid OMB control number. If you have any comments about this estimate or any other aspects of this data collection, including suggestions for reducing this burden, contact: US Department of Labor, OSHA Office of Statistical Analysis, Room N-3644, 200 Constitution Avenue, NW, Washington, DC 20210. Do not send the completed forms to this office.

FIGURE 16-3 Form Used to Record Occupational Injuries and Illnesses

Source: U.S. Department of Labor.

if necessary). The act protects each employee from retaliation for exercising his or her whistleblower rights.[47] OSHA increasingly uses (with the employer's assent) drones to help inspect facilities.[48]

OSHA inspectors look for all types of violations, but some areas grab more attention. The five most frequent OSHA inspection violations recently were for fall protection (construction), respiratory protection, ladders (construction), hazard communication, and scaffolding (construction).[49]

Finally, the inspector holds a closing conference with the employer's representative. Here the inspector discusses apparent violations for which OSHA may issue or recommend a **citation** and penalty. At this point, the employer can produce records to show compliance efforts. Figure 16-4 lists a manager's inspection guidelines.

citation
Summons informing employers and employees of the regulations and standards that have been violated in the workplace.

OSHA provides a free On-Site Consultation Program, offering confidential occupational safety and health services to small- and medium-sized businesses. It uses safety experts from state agencies and is completely separate from the OSHA inspection effort; no citations are issued or penalties proposed.[50]

FIGURE 16-4 Manager's OSHA Inspection Guidelines

Source: Patricia Polle, "When OSHA Knocks," *Occupational Hazards*, February 2008, pp. 59-61; Robert Grossman, "Handling Inspections: Tips From Insiders," *HR Magazine*, October 1999, pp. 41-50; https://www.osha.gov/sites/default/files/2018-12/fy10_sh-20853-10_osha_inspections.pdf, accessed April 22, 2022.

Initial Contact

- Refer the inspector to your OSHA coordinator.
- Check the inspector's credentials.
- Ask why he or she is inspecting. Is it a complaint? Programmed visit? Fatality or accident follow-up? Imminent danger investigation?
- If the inspection is the result of a complaint, the inspector won't identify the complainant, but you are entitled to know whether the person is a current employee.
- Notify your OSHA counsel, who should review all requests from the inspector for documents and information. Your counsel also should review the documents and information you provide to the inspector.

Opening Conference

- Establish the focus and scope of the planned inspection: Does the inspector want to inspect the premises or simply study your records?
- Discuss the procedures for protecting trade-secret areas, conducting employee interviews, and producing documents.
- Show the inspector that you have safety programs in place. He or she may not go to the work floor if paperwork is complete and up-to-date.

Walk-Around Inspection

- Accompany the inspector and take detailed notes.
- If the inspector takes a photo or video, you should too.
- Ask the inspector for duplicates of all physical samples and copies of all test results.
- Be helpful and cooperative, but don't volunteer information.
- To the extent possible, immediately correct any violation the inspector identifies.

PENALTIES OSHA can impose penalties. These generally range from $5,000 up to $150,000 for willful or repeat serious violations but can be far higher—$13 million after a tragedy at BP's Texas City plant, for instance.[51] (The parties settle many OSHA cases before litigation, in "precitation settlements.")[52] OSHA issues the citation and agreed-on penalties simultaneously, after the employer initiates negotiation settlements.[53] Nonserious violations may carry no penalties. OSHA publicizes its inspection results online.[54]

In general, OSHA calculates penalties based on the gravity of the violation, usually taking into consideration things like the size of the business, the firm's compliance history, and the employer's good faith (although not for willful violations).[55] OSHA must have a final order from the independent Occupational Safety and Health Review Commission to enforce a penalty.[56] The employer has 15 days from receiving a citation to file a notice of contest; the appeal can take years.[57]

Responsibilities and Rights of Employers and Employees

Both employers and employees have responsibilities and rights under the Occupational Safety and Health Act. *Employers* are responsible for providing "a workplace free from recognized hazards," for being familiar with mandatory OSHA standards, and for examining workplace conditions to make sure they conform to OSHA standards.[58] Employers have the right to seek advice and off-site consultation from OSHA; to request and receive proper identification of the OSHA compliance officer before inspection; and to be advised by the compliance officer of the reason for an inspection.

Employees also have rights and responsibilities, but OSHA can't cite them for violations of their responsibilities. Employees are responsible, for example, for complying with all applicable OSHA standards, for following all employer safety and health rules and regulations, and for reporting hazardous conditions to the supervisor. They have the right to demand safety and health on the job without fear of punishment. Retaliating against employees for reporting injuries or safety problems is illegal (see the OSHA safety poster in Figure 16-5).[59]

FIGURE 16-5 OSHA Safety Poster

Source: https://www.osha.gov/sites/default/files/publications/osha3165.pdf, accessed April 23, 2022.

DEALING WITH EMPLOYEE RESISTANCE Although employees are responsible to comply with OSHA standards, they often resist; the employer usually remains liable for any penalties. The refusal of some workers to wear hard hats typifies this problem.

Employers have attempted to defend themselves by citing worker intransigence. In most cases, courts still hold employers liable for workplace safety violations. The independent three-member Occupational Safety and Health Review Commission says employers must make "a diligent effort to discourage, by discipline if necessary, violations of safety rules by employees."[60] Cited for a workplace injury, the employer may

Gukzilla/Shutterstock

Employees have rights and responsibilities under OSHA standards, such as to wear their hard hats, but OSHA can't cite them if they violate their responsibilities.

claim employee misconduct. The key here is to provide documented evidence that the employee was properly trained to do the job the right way but did not.[61] But the only sure way to eliminate liability is to make sure that no accidents occur.

SITEDOCS DIGITAL WORKPLACE SAFETY Employers traditionally handled safety compliance centrally, via the HR team or a specialized safety unit. However, mobile device–based safety systems now give managers and employees a bigger role.

For example, SiteDocs digital safety management software lets employers digitize, move, store, and work with safety documents online via mobile devices.[62] Employees can log in via the mobile device and view and complete their safety documentation (such as OSHA reports). These become available immediately to management. This enables management to monitor whether employees are completing their documentation, and to identify almost at once workplace hazards and incidents.

LEARNING OBJECTIVE 16-3

Answer the question, "What causes accidents?"

What Causes Accidents?

There are three basic causes of workplace accidents: chance occurrences, unsafe conditions, and employees' unsafe acts. Chance occurrences (such as walking past a tree as a branch falls) are more or less beyond management's control. We will therefore focus on unsafe conditions and unsafe acts.

What Causes Unsafe Conditions?

unsafe conditions
The mechanical and physical conditions that cause accidents.

Unsafe conditions are a main cause of accidents. They include[63]

- Improperly guarded equipment
- Defective equipment
- Hazardous procedures around machines or equipment
- Unsafe storage—congestion, overloading
- Improper illumination—glare, insufficient light
- Spills on floors
- Tripping hazards, such as blocked aisles
- Working from heights, including ladders and scaffolds
- Electrical hazards like frayed cords

The solution here is to identify and eliminate the unsafe conditions. The main purpose of OSHA standards is to address mechanical and physical accident-causing conditions. The employer's safety department (if any) and its human resource managers and top managers should have responsibility for identifying unsafe conditions.

While accidents can happen anywhere, there's little mystery about where the worst ones occur:[64] around metal and woodworking machines and saws, transmission machinery (like gears), cutting machines, and conveyors. For example, when a conveyor with liquid chocolate suddenly started, it pulled in and mangled the arm of a worker who was cleaning it.[65] Improper use of press breaks—machines for bending metal—account for about 368 hand and finger amputations per year.[66]

SAFETY SCHEDULES AND CLIMATE Work schedules and fatigue also affect accident rates. Accident rates usually don't increase too noticeably during the first 5 or 6 hours of the workday. But after that, the accident rate increases faster. This is due partly to fatigue and partly to the fact that accidents occur more often during night shifts. Fatigue slows reaction time, reduces attention, and impairs judgement.[67] Many employers therefore take steps to reduce employee fatigue, such as banning mandatory overtime.

The workplace "climate" or psychology is very important. In one classic study in the 1990s, a researcher reviewed the fatal accidents offshore oil workers suffered in the British North Sea.[68] A strong pressure to complete the work as quickly as possible, employees who are under stress, and a poor safety climate—for instance, supervisors who never mentioned safety—were some of the psychological conditions leading to accidents. Similarly, accidents occur more frequently in plants with high seasonal layoff rates, hostility among employees, many garnished wages, and blighted living conditions.

What Causes Unsafe Acts?

Unsafe employee acts (such as running) will undo your efforts to banish unsafe conditions, but there are no easy answers to what causes people to act unsafely.

Sometimes the working conditions prompt unsafe acts, as with stressed-out oil rig workers. Sometimes employees don't get the required training, nor learn safe procedures.[69]

One might assume that some people are just accident prone, but the research isn't clear.[70] On closer inspection some "accident repeaters" were just unlucky, or may have been more careful about reporting their accidents.[71] However, there is evidence that people who are impulsive, sensation seeking, panicky, distractible, reckless, arrogant, and less conscientious (in terms of being less fastidious and dependable) do have more accidents.[72] (*Psychology Today* offers an accident-proneness test for about $7.00.)[73]

Furthermore, someone accident prone on one job may not be so on another. For example, personality traits that correlate with filing vehicular insurance claims include *entitlement* ("think there's no reason they should not speed"), *impatience* ("were 'always in a hurry'"), *aggressiveness* ("the first to move when the light turns green"), and *distractibility* ("frequently distracted by cell phones, eating, and so on").[74]

HR in Action at the Hotel Paris Lisa and the CFO reviewed their company's safety records, and what they found disturbed them deeply. In terms of every safety-related metric they could find, including accident costs per year, lost time due to accidents, workers' compensation per employee, and number of safety training programs per year, the Hotel Paris compared unfavorably with most other hotel chains and service firms. The case at the end of this chapter explains what they did.

LEARNING OBJECTIVE 16-4

List and explain five ways to prevent accidents at work.

How to Prevent Accidents

In practice, accident prevention boils down to reducing unsafe conditions and reducing unsafe acts. Larger firms generally have a chief safety officer (or "environmental health and safety officer"). But in smaller firms, managers, including those from human resources, plant managers, and first-line managers, share these responsibilities.

Small business safety can be particularly problematical: for example, owners might naively overlook crucial safety activities, such as chemical hazards training. There are no easy solutions. However, the firm's HR manager should make sure top management (1) understands the potential problem, and (2) actively seeks solutions, such as having OSHA conduct a safety audit and make recommendations.[75]

Reducing Unsafe Conditions

Reducing unsafe conditions (like those OSHA addresses) is the employer's first line of defense. Safety engineers should design jobs to remove or reduce physical hazards. Supervisors play an important role. Checklists as in Figure 16-6 and Figure 16-8 can help identify and remove potential hazards.

Sometimes the solution for an unsafe condition is obvious, and sometimes it's not. For example, obvious remedies for slippery floors include keeping them dry, floor mats, and better lighting. Perhaps less obviously, personal safety gear like slip-resistant footwear can also reduce falls. Cut-resistant gloves reduce the hazards of working with sharp objects.[76] (Hand injuries account for about 1 million emergency department visits annually by U.S. workers.)[77] Employees can use stop button devices to cut power to machines.[78] *Lockout/tagout* is a formal procedure to disable equipment such as power saws, to avoid unexpected activation. It involves disarming the device and affixing a "disabled" tag to the equipment.[79] For wearable digital devices such as motion monitors, the employer should determine the device's usability and ascertain that it won't cause unanticipated safety problems.[80]

Reducing unsafe conditions is important in offices too.[81] For example, get written confirmation that the space meets all building codes; make sure the builder, contractors, and/or landlord follow OSHA standards (for instance, unblocked exits); make sure the lease lets you compel the landlord to fix safety problems; and make sure air ducts are cleaned.

ROBOTS AND EXOSKELETONS Many industrial robots have speed and separation monitoring and safety stops, so humans can "hand" them parts without the robot hitting them.[82] Many of the new so-called "cobots" (robots designed to assist people) have digital faces with human characteristics. For example, one cobot "glances" in the direction when it's about to pick something up, to forewarn its human "colleagues."[83] Exoskeletons are mechanical structures worn to increase physical performance and decrease effort, making it easier to lift, say, heavy boxes. Using these requires planning and care.[84] For example, the exoskeleton might (in effect) increase someone's back strength, but also increase the strain on leg joints.

job hazard analysis
A systematic approach to identifying and eliminating workplace hazards before they occur.

JOB HAZARD ANALYSIS A Yale University science student, working late in a lab, was critically injured when her hair was caught in a spinning lathe. **Job hazard analysis** involves a systematic approach to identifying and eliminating such hazards before they cause accidents.[85]

Consider a safety analyst looking at the Yale science lab, with the aim of identifying potential hazards. Performing a job hazard analysis here might involve looking at the situation and asking four questions:

- ***What can go wrong?*** A student's hair or clothing could become caught in the lathe, a rotating object that "catches" it and pulls it into the machine.
- ***What are the consequences?*** The student could receive a severe injury as his or her body part or hair is caught and drawn into the spinning lathe.
- ***How could it happen?*** The accident could happen as a result of the student leaning too close to the lathe while working at the bench, or walking too close to the lathe, or bending to reach for an article that fell close to the lathe.
- ***What are other contributing factors?*** Speed is one contributing factor. The problem would occur so quickly that the student would be unable to take evasive action once the lathe ensnarled the hair.

FIGURE 16-6 Supervisor's Safety Checklist

Source: Office of the Chief Information Officer, United States Department of Commerce, http://ocio.os.doc.gov/s/groups/public/@doc/@os/@ocio/@oitpp/documents/content/dev01_002574.pdf, accessed October 15, 2013.

FORM **CD-574**
(9/02)

U.S. Department of Commerce
Office Safety Inspection Checklist for Supervisors and Program Managers

Name:	**Division:**
Location:	**Date:**
Signature:	

This checklist is intended as a guide to assist supervisors and program managers in conducting safety and health inspections of their work areas. It includes questions relating to general office safety, ergonomics, fire prevention, and electrical safety. Questions which receive a "**NO**" answer require corrective action. If you have questions or need assistance with resolving any problems, please contact your safety office. More information on office safety is available through the Department of Commerce Safety Office website at http://ohrm.doc.gov/safetyprogram/safety.htm.

Work Environment

Yes	No	N/A	
○	○	⊙	Are all work areas clean, sanitary, and orderly?
○	○	⊙	Is there adequate lighting?
○	○	⊙	Do noise levels appear high?
○	○	⊙	Is ventilation adequate?

Walking / Working Surfaces

Yes	No	N/A	
○	○	⊙	Are aisles and passages free of stored material that may present trip hazards?
○	○	⊙	Are tile floors in places like kitchens and bathrooms free of water and slippery substances?
○	○	⊙	Are carpet and throw rugs free of tears or trip hazards?
○	○	⊙	Are hand rails provided on all fixed stairways?
○	○	⊙	Are treads provided with anti-slip surfaces?
○	○	⊙	Are step ladders provided for reaching overhead storage areas and are materials stored safely?
○	○	⊙	Are file drawers kept closed when not in use?
○	○	⊙	Are passenger and freight elevators inspected annually and are the inspection certificates available for review on-site?
○	○	⊙	Are pits and floor openings covered or otherwise guarded?
○	○	⊙	Are standard guardrails provided wherever aisle or walkway surfaces are elevated more than 48 inches above any adjacent floor or the ground?
○	○	⊙	Is any furniture unsafe or defective?
○	○	⊙	Are objects covering heating and air conditioning vents?

Ergonomics

Yes	No	N/A	
○	○	⊙	Are employees advised of proper lifting techniques?
○	○	⊙	Are workstations configured to prevent common ergonomic problems? (Chair height allows employees' feet to rest flat on the ground with thighs parallel to the floor, top of computer screen is at or slightly below eye level, keyboard is at elbow height. Additional information on proper configuration of workstations is available through the Commerce Safety website at http://ohrm.doc.gov/safetyprogram/safety.htm)
○	○	⊙	Are mechanical aids and equipment, such as; lifting devices, carts, dollies provided where needed?
○	○	⊙	Are employees surveyed annually on their ergonomic concerns?

FIGURE 16-6 ***Continued***

FORM CD-574
(9/02)

Emergency Information (Postings)

Yes	No	N/A	
○	○	◉	Are established emergency phone numbers posted where they can be readily found in case of an emergency?
○	○	◉	Are employees trained on emergency procedures?
○	○	◉	Are fire evacuation procedures/diagrams posted?
○	○	◉	Is emergency information posted in every area where you store hazardous waste?
○	○	◉	Is established facility emergency information posted near a telephone?
○	○	◉	Are the OSHA poster, and other required posters displayed conspicuously?
○	○	◉	Are adequate first aid supplies available and properly maintained?
○	○	◉	Are an adequate number of first aid trained personnel available to respond to injuries and illnesses until medical assistance arrives?
○	○	◉	Is a copy of the facility fire prevention and emergency action plan available on site?
○	○	◉	Are safety hazard warning signs/caution signs provided to warn employees of pertinent hazards?

Fire Prevention

Yes	No	N/A	
○	○	◉	Are flammable liquids, such as gasoline, kept in approved safety cans and stored in flammable cabinets?
○	○	◉	Are portable fire extinguishers distributed properly (less than 75 feet travel distance for combustibles and 50 feet for flammables)?
○	○	◉	Are employees trained on the use of portable fire extinguishers?
○	○	◉	Are portable fire extinguishers visually inspected monthly and serviced annually?
○	○	◉	Is the area around portable fire extinguishers free of obstructions and properly labeled ?
○	○	◉	Is heat-producing equipment used in a well ventilated area?
○	○	◉	Are fire alarm pull stations clearly marked and unobstructed?
○	○	◉	Is proper clearance maintained below sprinkler heads (i.e., 18" clear)?

Emergency Exits

Yes	No	N/A	
○	○	◉	Are doors, passageways or stairways that are neither exits nor access to exits and which could be mistaken for exits, appropriately marked "NOT AN EXIT," "TO BASEMENT," "STOREROOM," etc.?
○	○	◉	Are a sufficient number of exits provided?
○	○	◉	Are exits kept free of obstructions or locking devices which could impede immediate escape?
○	○	◉	Are exits properly marked and illuminated?
○	○	◉	Are the directions to exits, when not immediately apparent, marked with visible signs?
○	○	◉	Can emergency exit doors be opened from the direction of exit travel without the use of a key or any special knowledge or effort when the building is occupied?
○	○	◉	Are exits arranged such that it is not possible to travel toward a fire hazard when exiting the facility?

FIGURE 16-6 ***Continued***

FORM **CD-574**
(9/02)

Electrical Systems
(Please have your facility maintenance person or electrician accompany you during this part of the inspection)

Yes	No	N/A	
○	○	◉	Are all cord and cable connections intact and secure?
○	○	◉	Are electrical outlets free of overloads?
○	○	◉	Is fixed wiring used instead of flexible/extension cords?
○	○	◉	Is the area around electrical panels and breakers free of obstructions?
○	○	◉	Are high-voltage electrical service rooms kept locked?
○	○	◉	Are electrical cords routed such that they are free of sharp objects and clearly visible?
○	○	◉	Are all electrical cords grounded?
○	○	◉	Are electrical cords in good condition (free of splices, frays, etc.)?
○	○	◉	Are electrical appliances approved (Underwriters Laboratory, Inc. (UL), etc)?
○	○	◉	Are electric fans provided with guards of not over one-half inch, preventing finger exposures?
○	○	◉	Are space heaters UL listed and equipped with shutoffs that activate if the heater tips over?
○	○	◉	Are space heaters located away from combustibles and properly ventilated?
○	○	◉	In your electrical rooms are all electrical raceways and enclosures securely fastened in place?
○	○	◉	Are clamps or other securing means provided on flexible cords or cables at plugs, receptacles, tools, equipment, etc., and is the cord jacket securely held in place?
○	○	◉	Is sufficient access and working space provided and maintained about all electrical equipment to permit ready and safe operations and maintenance? (This space is 3 feet for less than 600 volts, 4 feet for more than 600 volts)

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Material Storage

Yes	No	N/A	
○	○	◉	Are storage racks and shelves capable of supporting the intended load and materials stored safely?
○	○	◉	Are storage racks secured from falling?
○	○	◉	Are office equipment stored in a stable manner, not capable of falling?

The job hazard analysis should provide the basis for creating countermeasures. For example, given the speed with which such a lathe accident would occur, it's unlikely that training by itself would suffice. Instead, the lathe area should be ensconced in its own protective casing, and changes made to ensure that the lathe can't spin unless the student takes action via a foot pedal.

It is prudent to focus first on identifying high-hazard potential events. For example, accidentally cutting one's finger with a knife is usually not as potentially catastrophic as catching it in a mechanical slicing machine. Therefore first identify such potential high-hazard events. Then conduct job hazard analyses, and implement preventive steps.[86]

OPERATIONAL SAFETY REVIEWS After Japan's Fukushima nuclear power plant exploded years ago, many wondered if the International Atomic Energy Agency (IAEA) had conducted the necessary operational safety reviews. **Operational safety reviews** (or safety operations reviews) are conducted by agencies to ascertain whether units under their jurisdiction are complying with all the applicable safety laws, regulations, orders, and rules. For example, under IAEA's Operational Safety Review Program, "international teams of experts conduct in-depth reviews of operational safety performance at a nuclear power plant."[87]

operational safety reviews
Reviews conducted by agencies to ascertain whether units under their jurisdiction are complying with all the applicable safety laws, regulations, orders, and rules.

OTHER SAFETY ANALYSIS TOOLS Employers also analyze incident reports, near miss data, stop-work events, and similar information to identify the causal conditions or behaviors.[88] Many conduct *artificial intelligence–enabled* safety analyses, for example to find patterns in a plant's historical accidents.[89] The oil and gas industry uses *drones* for inspections.[90] For example, they help identify potential explosion risks from machinery wear and tear; and are particularly useful for dangerous inspections. Environmental, health, safety, and quality (EHSQ) software is used, for instance to schedule employees' health check assessments, and to guide them in completing health questionnaires.[91]

PERSONAL PROTECTIVE EQUIPMENT (PPE) The hazard analysis may reveal a need for personal protective equipment, or PPE. According to OSHA PPE is equipment (such as eye or ear protection, respirators, hardhats, gloves, or full body suits) that aims to minimize exposure to various hazards.

Although PPE aims to and can reduce the perils of many unsafe conditions, employees often resist using it.[92] Wearability is a big issue. OSHA says it "should fit comfortably, encouraging worker use."[93] Specifically, PPE should fit properly; be easy to care for; be flexible and lightweight; and be maintained in a clean and reliable fashion, for instance. Companies use new fibers and fabrics to design easier-wearing high-tech solutions, including several high-tech face masks for COVID-19 protection.[94] And it's not just wearability. For example, some workers resist hearing protection or masks because they're afraid it may interfere with hearing or talking to their colleagues.[95] It's therefore important to solicit workers' opinions, and to train them.

Similarly, cold weather means employers should protect their outdoor workers.[96] This should include, among other things, monitoring temperature and windchill conditions, making sure workers are supplied with cold-weather apparel, monitoring workers for signs of frostbite, and providing adequate indoor breaks.[97]

smart PPE
A wearable that delivers real-time safety information to and from workers.

Smart PPE is a wearable that delivers real-time safety information to and from workers.[98] Much like smart watches, smart PPE can transmit information on a worker's movements, heart rate, and other human metrics, and also deliver alerts to the worker. Safety departments monitor this data in real time.

Of course, the employer should require wearing protective equipment before it's needed, not just after. For example, a combustible dust explosion at a sugar refinery killed 14 employees and burned many others. The employer subsequently required that all employees wear fire-resistant clothing, unfortunately too late for the victims.[99]

But again, reducing unsafe conditions is the first line of defense. OSHA says, "[e]mployers must institute all feasible engineering and work practice controls to eliminate and reduce hazards before using PPE to protect against hazards."[100]

beacons
Tiny devices that continuously transmit radio signals identifying themselves.

Beacons—tiny devices that continuously transmit radio signals identifying themselves—are becoming valuable safety tools. Employers use them to keep track of employees, particularly if they're in distress. Others use them to warn employees, such as when they're too close to a danger zone.[101] To encourage its warehouse workers to maintain safe distances during the pandemic, Amazon tested wearable devices that warn people when they're too close together.[102]

DIVERSITY COUNTS

Protecting Vulnerable Workers

In designing safe environments, employers need to pay special attention to more vulnerable workers, such as women, young, and aging workers.[103] For example, although 14- and 15-year-olds can generally only legally work at jobs like cashier and office work, 16- and 17-year-olds may take jobs like cooking and construction. In one year, twelve 16- to 17-year-olds (and 68 16- to 19-year-olds) died as a result of occupational injuries in the U.S.[104] (Younger workers have less work experience and training, so are more susceptible to injury at work). Similarly, as one safety engineering company CEO said, "For decades, women essentially were ignored when it came to designing eye and face protection." Today, more products are available in smaller sizes.[105]

With more workers postponing retirement, older workers often fill manufacturing jobs.[106] They can do these jobs effectively. Whether it's increased experience, caution, or awareness, older workers have fewer workplace injuries than younger ones.[107] However, there are physical changes associated with aging. These include loss of strength, loss of muscular flexibility, and reduced reaction time.[108] The fatality rate for older workers is about three times that of younger workers, and is higher than several years ago.[109] Employers should make special provisions. For example, boost lighting levels and reduce heavy lifting.[110]

One also needs plans for dealing with workplace health issues.[111] Thus, in the case of a cardiac arrest emergency, early CPR and external defibrillators are essential. These should be available and one or more employees trained to use them.[112] ■

Reducing Unsafe Acts

While reducing unsafe conditions is the first line of defense, human misbehavior will short-circuit even the best safety efforts.[113]

Sometimes the misbehavior is intentional, but often it's not. For example, distractions contribute to about half of all car accidents. The National Safety Council estimates that cell phone distractions are involved in 24% of all motor vehicle crashes, and in about 3,100 deaths in one recent year.[114] (Drivers of commercial interstate motor vehicles are banned from using handheld mobile phones while driving.)[115] At work, not noticing moving or stationary objects or that a floor is wet often causes accidents.[116] And, ironically, "making a job safer with machine guards or PPE lowers people's risk perceptions and thus can lead to [more] at-risk behavior."[117]

Unfortunately, telling employees to "pay attention" isn't enough. First try to eliminate potential risks, such as unguarded equipment. Next, reduce potential distractions such as noise, heat, and stress. Then, carefully screen and train employees, as we explain next.

Reducing Unsafe Acts through Screening

In reducing unsafe acts through screening, the employer's aim is to identify the traits that predict accidents on the job and then test candidates for these traits. For example, the Employee Reliability Index (ERI) measures dimensions such as emotional maturity, conscientiousness, and safe job performance.[118] Employers also use *work sample* tests and tests of *physical abilities* to determine if the person can do the job. Some employers conduct *physical demands assessments* (PDAs). These itemize a job's physical demands, such as "lifting 40 pounds an hour," and "working in 90 degree heat." The employer then uses this to develop more precise screening and training for the job.[119]

Behavioral interview questions can also be revealing. For example, ask, "What would you do if your supervisor told you to do something you knew was unsafe?"

Reducing Unsafe Acts through Training

Studies by the Hartford Insurance Company found that injury rates for workers in their first month on the job were four to six times higher than for other workers.[120]

Safety training reduces unsafe acts, especially for new employees.[121] Here the employer should instruct employees in safe practices and procedures, warn them of potential hazards, and work to develop a safety-conscious employee attitude. OSHA's standards don't just require training. Employees must demonstrate that they actually learned what to do. (For example, OSHA's respiratory standard requires that each employee demonstrate how to inspect, put on, and remove respirator seals.[122] OSHA has two booklets, *Training Requirements under OSHA* and *Teaching Safety and Health in the Workplace*.) Because temporary workers account for a disproportionate share of workplace accidents, the employer should take particular care to train them.[123]

The main aim of safety training is not to meet OSHA training standards, but to impart knowledge and skills to reduce accidents. One study found that the most effective safety training elicited employee engagement.[124] The "least engaging" programs included lectures, films, reading materials, and video-based training.

Silantev Roman/Alamy Stock Photo

Emergency stop devices, such as buttons, override other machine controls to remove power from hazardous machine motion.

"Moderately engaging" programs included computer interface instruction with feedback. "Engaging" ones included behavioral modeling, simulation, and hands-on training.

Employers also use training vendors' online safety programs.[125] Online safety course and video vendors include, for example, https://safetyskills.com/, PureSafety (www.ulworkplace.com), and HSI (https://hsi.com/). When the University of California system wanted safety training for its campuses, it developed an online program with one vendor. The 2-hour custom online lab safety course covers OSHA regulations, with exercises for trainees.[126] OSHA, the National Institute for Occupational Safety and Health (NIOSH), and other private vendors also offer online safety training solutions.

Reducing Unsafe Acts through Posters, Incentives, and Positive Reinforcement

Employers also use various tools to motivate worker safety.[127] Safety posters are one, but are no substitute for comprehensive safety programs. Employers should combine posters with other techniques (like screening and training) to reduce unsafe conditions and acts, and change the posters often. Posters should be easily visible, legible, and well-lit.[128]

Incentive programs are also useful. In one survey several years ago, about 75% of U.S. manufacturers surveyed said they had safety incentive programs.[129] Most such programs pay incentives for safety-related worker behaviors such as participating in a safety meeting, reporting a near miss, or reporting unsafe conditions.[130]

OSHA has argued that some incentive programs don't reduce injuries or illnesses, but only injury and illness *reporting.* OSHA rules prohibit employers from using incentive programs that in any way penalize workers for reporting accidents or injuries.[131] It permits incentive programs,[132] but might question, for instance, a payment that is so high that it might dissuade reasonable workers from reporting problems.[133]

One option is to emphasize behavioral incentives like recognition (see following example).[134] In any case, the incentive program should be just part of a safety program.[135]

EXAMPLE Many employers use *positive reinforcement programs* to improve safety. The positive reinforcement is often in the form of graphical performance reports and supervisory support.

Researchers introduced one program in a wholesale bakery.[136] They gave employees a reasonable *safety goal* (in terms of observed incidents performed safely).

Next, employees had a 30-minute *training session* by viewing pairs of slides depicting the plant. One ("unsafe") slide showed the supervisor climbing over a conveyor; the parallel slide showed the supervisor walking around the conveyor. After viewing an unsafe act, employees had to describe, "What's unsafe here?" Then the researchers explicitly stated the safe-conduct rule ("go around, not over conveyors").

Next, supervisors showed employees a graph with their pretraining safety record (*incidents performed safely*). Supervisors encouraged workers to increase their performance to the new safety goal (incidents performed safely), for their own protection, and to improve the plant's safety ranking. Then the researchers posted the graph and a list of safety rules ("go around, not over conveyors").

Then, whenever observers walked through the plant, they posted on the graph the percentage of incidents they saw performed safely. Workers could compare their current safety performance with both their previous performance and their assigned goal. This graph provided the workers with positive feedback. In addition, supervisors praised workers when they performed incidents safely. Safety in the plant soon improved.

Reducing Unsafe Acts by Establishing a Culture of Safety

Employers and supervisors should establish a *culture of safety*, a set of values that signal the company's commitment to safety.[137] The employer builds a safety culture on a *shared vision* of safety excellence (including a policy emphasizing that accidents are preventable), and on frequent management–employee *communication and collaboration* on safety matters. You can measure "safety culture," with items such as:

- My supervisor says a good word whenever they see the job done according to safety rules;
- My supervisor approaches workers during work to discuss safety issues;[138]
- We have senior leadership safety visits at least every month;
- Our team has frequent safety meetings;[139]
- My supervisor assigns critical safety functions to specific individuals or teams;
- My supervisor encourages accident incident reporting;[140] and,
- This company encourages identifying and correcting safety problems and hazards.[141]

Reducing Unsafe Acts through Behavior-Based Safety and Safety Awareness Programs

behavior-based safety
Identifying the worker behaviors that contribute to accidents and then training workers to avoid these behaviors.

Behavior-based safety means identifying the worker behaviors that contribute to accidents and then training workers to avoid these behaviors. Tenneco Corporation implemented one such program. The firm selected "internal consultants" from among its quality managers, training managers, engineers, and production workers. After training, the internal consultants identified five critical behaviors for Tenneco's first safety program, such as *Eyes on task: Does the employee watch his or her hands while performing a task?* The consultants made observations and collected data on the behaviors. Then they instituted training programs to get employees to perform these five behaviors properly.[142]

safety awareness program
Program that enables trained supervisors to orient new workers arriving at a job site regarding common safety hazards and simple prevention methods.

In a **safety awareness program** new workers receive critical information regarding the job's common safety hazards along with simple prevention methods, often when first arriving at a job site. For example, the U.S. Postal Service has such programs,[143] and a builder's association offered one for truckers, covering matters like stopping distances required at various speeds.

Other Ways to Reduce Unsafe Acts

CREATE A SUPPORTIVE ENVIRONMENT The teams led by supportive supervisors seem to have better safety records. Conversely, ". . . abusive supervision is significantly and negatively related to workplace safety . . . ."[144] Organizations can foster a supportive environment by training supervisors to be better leaders, and by emphasizing social support and the value of safety.[145]

ESTABLISH A SAFETY POLICY The company's written safety policy should emphasize that accident prevention is of the utmost importance, and that the firm will do everything practical to eliminate or reduce accidents and injuries.

SET LOSS CONTROL GOALS Set specific safety goals to achieve. For example, set safety goals in terms of frequency of lost-time injuries per number of full-time employees.

USE EMPLOYEE PARTICIPATION As OSHA says, "To be effective, any safety and health program needs the meaningful participation of workers and their representatives. . . . Worker participation means that workers are involved in establishing, operating, evaluating, and improving the safety and health program."[146] The employee engagement section in this chapter illustrates this.

EMPLOYEE CONDITIONING Many people were less active during the pandemic.[147] This led to reduced cardiovascular fitness, and muscle strength. This in turn affected many workers' abilities to do their jobs properly, and their accident rates. Encouraging conditioning counteracts that.

EYE TRACKING Accidents occur when workers don't watch what they're doing. *Eye tracking* means having workers use special goggles that record where workers look as they do a job. For example, in one metals casting company, the workers pour molten metal into a mold.[148] Eye tracking enabled this employer to identify the visual patterns that did and did not contribute to errors on the job, and take remedial action.

Conducting Safety and Health Audits and Inspections

Safety managers know that good intentions aren't enough: the employer must also audit safety compliance.

First, supervisors should periodically inspect their areas using safety audit/checklists (as in Figure 16-6), including investigating all accidents and "near misses."

Second, a company/facility-wide safety audit is also in order. OSHA provides a safety self-audit tool.[149] (www.osha.gov/sites/default/files/SHP_Audit_Tool.pdf.) This contains items such as "Management implements and communicates a written policy supporting the safety and health program," and "Management defines specific goals and expectations for the program."[150] Other safety audit metrics would include, for instance, injury and illness rates, workers' compensation cost per employee, at-risk behavior reduction, and safety training exercises.[151] Ideally, *trend the audit data* (for instance, to see if accident rates are rising, falling, or steady); then *track corrective actions* through to completion.[152]

Employers use mobile digital tools to expedite safety audits. For example, they use the *iAuditor*—Safety Audit and Checklist App[153] to facilitate safety audits. It contains safety checklists and tools.

Addressing Temp/Gig Employee Safety[154]

U.S. temp workers account for up to five times the expected workplace fatalities. New employees tend to have more accidents, and temp workers are often new. Temp workers also often lack some familiar legal protections such as workers' compensation.[155] This may prompt employers to ignore temps' safety training (on the mistaken assumption it's not required). And some experts believe temp workers often get more hazardous jobs.

However, temp/gig workers *are* covered by occupational health and safety laws, and employers have the same safety obligations to them as to regular employees. For example, the host employer has the primary responsibility for providing temp workers with site-specific hazard communications information and training. This must be identical to what it gives its own employees.

Many host employers hire temps through staffing agencies. According to OSHA, these agencies should, for example, provide generic hazard communications training, and visit the facility to review its hazard safety processes.

Table 16-1 summarizes suggestions for reducing unsafe conditions and acts.

TABLE 16-1 Reducing Unsafe Conditions and Acts: A Summary

Reduce Unsafe Conditions
Identify and eliminate unsafe conditions.
Use administrative means, such as job rotation.
Use personal protective equipment.
Reduce Unsafe Acts
Emphasize top management commitment.
Emphasize safety.
Establish a safety policy.
Reduce unsafe acts through selection.
Provide safety training.
Use posters and other propaganda.
Use positive reinforcement.
Set specific safety goals to achieve.
Use behavior-based safety programs.
Encourage worker participation.
Conduct safety and health audits and inspections regularly.

LEARNING OBJECTIVE 16-5

Describe how one company uses employee engagement to improve workplace safety.

Employee Engagement Guide for Managers

Milliken & Company—World-Class Safety through Employee Engagement

Milliken & Company designs, manufactures, and markets chemicals, floor coverings, protective fabrics, and textiles. It has about 7,000 employees in more than 39 facilities around the world. The privately owned Milliken has received widespread recognition for the quality of its innovative products, for its high employee engagement, and for its world-class employee engagement-based safety program. It's also the only company to consistently rank as a "most ethical company" for 15 years running.[156] A survey of Milliken's employees found an 80% positive engagement level, based on questions concerning employees' commitment, pride in company, and empowerment efforts.[157] Its extraordinarily low workplace illness and injury rates make it one of the safest companies in which to work.[158]

Involvement-Based Employee Engagement

The centerpiece of Milliken's safety process is its *involvement-based employee engagement* program. For example, employees staff the safety steering and safety subcommittee system, submit "opportunity for improvement" suggestions weekly, review each of these suggestions, and provide feedback on every suggestion.[159] The safety process depends on *cascading goals* deriving from federal, state, and Milliken-based safety guidelines. These goals are translated through weekly meetings into specific metrics (for instance, "accidents per employee hour worked") to be achieved by each plant's subcommittees. Each subcommittee then performs weekly *audits*, to ensure compliance and that the plant's safety activities are continuously improved. Plant employees get checklists to familiarize themselves with the safety measures associated with their machines.[160]

Each Milliken employee's safety program involvement is quantified, for instance in terms of serving on safety subcommittees, or conducting safety audits.[161] Also, to help foster engagement, the program *empowers* employees, for instance, by training each to be knowledgeable about OSHA safety regulations. Milliken also trains employees to give and receive peer-to-peer safety comments. Each is authorized to act by providing "constructive feedback" or "appreciative feedback" when observing another employee doing something safely (or not). Milliken's safety tracking tool helps employees make sure that safety suggestions, safety audit findings, or other safety agenda items are each tracked and finalized; each item gets a number, date, and the name of the responsible

Milliken employee.[162] Milliken's programs are consistent with OSHA's Voluntary Protection Program, and many of its U.S. facilities are VPP certified.[163]

Members of each plant's employee safety steering committee investigate all safety incidents to identify the causes.[164] Milliken recognizes employees' safety efforts in formal events throughout the year, such as having "cheerleaders" provide safety cheers as engineers enter the plant.[165]

LEARNING OBJECTIVE 16-6

List five workplace health hazards and how to deal with them.

Workplace Health Hazards: Problems and Remedies

Many workplace hazards aren't as obvious as slippery floors. Instead, they are unseen hazards the company may use or produce as part of its production processes. Typical here are chemicals, temperature extremes, biohazards (such as mold and anthrax), and ergonomic hazards (such as misaligned computer screens). OSHA and other safety standards cover many of them.[166]

Chemicals and Industrial Hygiene

For example, OSHA standards list exposure limits for about 600 chemicals, such as asbestos and lead. Such hazardous substances require air sampling and other precautionary measures.

Managing such hazards comes under the purview of *industrial hygiene*, and involves recognition, evaluation, and control. First, the facility's safety officers (often working with supervisors and employees) must *recognize* possible exposure hazards. This typically means conducting plant/facility walk-around surveys, employee interviews, records reviews, and reviews of government (OSHA) and nongovernmental standards. The CDC and NIOSH provide a "Mobile Pocket Guide" smartphone app. This lists the properties of most chemicals, their exposure metrics, and PPE and respirator recommendations.

Once the manager identifies a possible hazard, *evaluation* involves determining how severe it is. This requires measuring the exposure, comparing the measure to some benchmark (such as 0.10 fibers per cubic centimeter for asbestos), and determining if the risk is within standard.[167]

Hazard *control* involves eliminating or reducing the hazard. Here personal protective gear should be the *last* option. The employer must first install engineering controls (such as enclosures or ventilation) and administrative controls (including training and improved housekeeping).

Know Your Employment Law: Hazard Communication

In, say, a dry cleaning store, it might not be apparent by looking at it that the clear cleaning chemical hydrofluoric acid will eat through glass and blind an unsuspecting worker. Under OSHA's *hazard communication standard*, "in order to ensure chemical safety in the workplace, information about the identities and hazards of the chemicals must be available and understandable to workers." As a result, chemical manufacturers and importers must label and provide *hazard safety data sheets* to their customers. All employers must have labels and safety data sheets available for their exposed workers, and train workers to handle the chemicals appropriately.[168]

We'll look at several important workplace hazards next.

Asbestos Exposure at Work and Air Quality

Asbestos is a major source of occupational respiratory disease. Efforts are still underway to rid old buildings of the substance.[169]

OSHA standards require several actions with respect to asbestos. Employers must monitor the air whenever they expect the level of asbestos to rise to one-half the allowable limit (0.10 fibers per cubic centimeter). Engineering controls—walls, special filters, and so forth—are required to maintain a compliant asbestos level. Only then can employers use respirators if additional efforts are required to achieve compliance.

Logtnest/Shutterstock

Exposure to asbestos is a major potential source of occupational respiratory disease. Workers need to wear protective clothing and a respirator to remove asbestos from buildings.

Alcoholism and Substance Use Disorders

One in every 13 adults, (about 14 million Americans) have what the American Psychological Association terms alcohol use disorders.[170] By one estimate, about two-thirds of all people with drug or alcohol use disorders are employed.[171] One older estimate was that 15% of the U.S. workforce "has either been hung over at work, been drinking shortly before showing up for work, or been drinking or impaired while on the job at least once during the previous year."[172] Absenteeism is about 4 to 8 times higher among those with alcohol use disorders, and injuries are far more likely among them. About half of all traffic fatalities involve alcohol.[173] Estimates of what alcohol disorders cost U.S. employers range from $33–$68 billion up to $226 billion per year, for instance in absenteeism and accidents.[174]

SUBSTANCE USE TESTING Dealing with workplace substance use disorders often involves *testing*. It's unusual to find employers who don't at least test job candidates for drugs before formally hiring them. And many states have mandatory random drug testing for high-hazard workers. For example, New Jersey requires random drug testing of electrical workers.[175]

In general, drug testing does reduce occupational problems like accidents and absenteeism.[176] However, preemployment tests may not be enough. In one study a combination of preemployment and random ongoing testing was associated with a significant reduction in workplace accidents.[177]

With more states legalizing marijuana (at least 33 states plus the District of Columbia and Puerto Rico have laws legalizing marijuana),[178] many employers are ratcheting down their drug testing programs, at least for marijuana.[179] For example, AutoNation announced it would no longer refuse job offers because someone tested positive for marijuana.[180]

However, employers with critical safety issues (like those with heavy equipment or in transportation) continue to test. Others do too. Bank of America reportedly does both pre-hire and random drug testing.[181] AutoNation continues to bar those who test positive for other illegal drugs. And at factories (particularly with heavy machinery), a zero-tolerance policy remains the rule. One food processing plant randomly tests one employee every month, "and we're going to move it to two."[182]

Some applicants or employees may try to evade testing by purchasing "clean" specimens.[183] Several states—including New Jersey, North Carolina, Virginia, Oregon,

South Carolina, Pennsylvania, Louisiana, Texas, and Nebraska—have laws making drug-test fraud a crime.[184] The oral fluid drug test eliminates the "clean specimen" problem.[185] However, given the problem, ongoing random testing is still advisable.

ADDRESSING SUBSTANCE ABUSE Ideally, a drug-free workplace program includes five components:[186]

1. A drug-free workplace policy
2. Supervisor training
3. Employee education
4. Employee assistance
5. Drug testing

The policy should state, at a minimum, "The use, possession, transfer, or sale of illegal drugs by employees is prohibited." It should also explain the policy's rationale, and the disciplinary consequences. Supervisors should be trained to monitor employees' performance, and to stay alert to drug-related performance problems.[187] As in Table 16-2, alcohol-related symptoms range from tardiness in the earliest stages of abuse to prolonged, unpredictable absences in its later stages.[188]

TABLE 16-2 Observable Behavior Patterns Indicating Possible Alcohol-Related Problems

Alcoholism Stage	Some Possible Signs of Alcoholism Problems	Some Possible Alcoholism Performance Issues
Early	Arrives at work late	Reduced job efficiency
	Untrue statements	Missed deadlines
	Leaves work early	Careless, sloppy work
Middle	Frequent absences, especially Mondays	Accidents
	Colleagues mentioning erratic behavior	Warnings from boss
	Mood swings	Noticeably reduced performance
	Anxiety	Many excuses for incomplete assignments or missed deadlines
	Late returning from lunch	
	Frequent multiday absences	
Advanced	Personal neglect	Frequent falls, accidents
	Unsteady gait	Strong disciplinary actions
	Violent outbursts	Basically incompetent performance
	Blackouts and frequent forgetfulness	
	Possible drinking on job	

Source: Based on Gopal Patel and John Adkins Jr., "The Employer's Role in Alcoholism Assistance," *Personnel Journal* 62, no. 7 (July 1983), p. 570; Mary-Anne Enoch and David Goldman, "Problem Drinking and Alcoholism: Diagnosis and Treatment," *American Family Physician*, February 1, 2002, www.aafp.org/afp/20020201/441.html, accessed July 20, 2008; Ken Pidd et al., "Alcohol and Work: Patterns of Use, Workplace Culture, and Safety," www.nisu.flinders.edu.au/pubs/-reports/2006/injcat82.pdf, accessed July 20, 2008; www.ncadd.org/about-addiction/addiction-update/drugs-and-alcohol-in-the-workplace, accessed April 12, 2017; https://www.opm.gov/policy-data-oversight/worklife/reference-materials/alcoholism-in-the-workplace-a-handbook-for-supervisors/#Appendix, accessed April 24, 2022.

Several instruments are available to screen for alcohol or drug abuse. The most widely used self-reporting screening instruments for alcoholism are the 4-item CAGE and the 25-item Michigan Alcoholism Screening Test (MAST). The former asks questions like these: Have you ever (1) attempted to Cut back on alcohol, (2) been Annoyed by comments about your drinking, (3) felt Guilty about drinking, (4) had an Eye-opener first thing in the morning to steady your nerves?[189]

In general, disciplining, discharge, in-house counseling, and referral to an outside agency are the traditional prescriptions when *current* employees test positive;

repeated test failures often incur harsher penalties. However federal and state laws govern what employers can and can't do.[190] For example federal transportation law basically requires that a truck driver who fails (or refuses to take) a drug test be immediately removed from driving until successful completion of qualified counseling.[191] (Employers who register can check commercial drivers' drug and alcohol violations on a new U.S. Department of Transportation database.)[192] And in Vermont and Minnesota, someone who fails a first drug test can't be fired if they complete a rehabilitation program.[193]

According to the EEOC, the Americans with Disabilities Act "specifically provides that employers may require an employee who is an alcoholic or who engages in the illegal use of drugs to meet the same standards of performance and behavior as other employees."[194] So, for example, the employer generally need not tolerate substance-related behavior such as absenteeism.[195] However there may be exceptions, such as if the test results involved prescription drugs or medical marijuana. And lawsuits for invasion of privacy and defamation are always possible. Therefore, it's best to publicize the substance use disorder policy and procedures, for instance in the employee manual.[196]

Stress, Burnout, and Depression

Many things about one's job can be stressful. These include belligerent bosses or colleagues, poor job security, low pay, unpredictable schedules, workplace noise, excessive workloads, inadequate control over job-related decisions, unclear performance expectations, and arrogant customers.[197]

Furthermore, personality affects stress. For example, Type A personalities—people who feel driven to meet deadlines—normally place themselves under greater stress.[198] Add to job stress the stress caused by nonjob problems like divorce, and many workers face considerable pressure.

Human consequences of job stress include anxiety, depression, anger, cardiovascular disease, headaches, accidents, and even early onset Alzheimer's disease.[199] One study found that nurses working under excessive pressure had double the risk for heart attacks.[200] For the employer, consequences include diminished performance and increased absenteeism and turnover. One report estimates that work stress costs an extra $125 to $190 billion dollars per year in healthcare spending.[201]

REDUCING JOB STRESS There are several ways to alleviate dysfunctional stress. These range from commonsense remedies (getting more sleep) to biofeedback and meditation. Finding a more suitable job, getting counseling, and planning each day's activities are other sensible responses.[202] In his book *Stress and the Manager*, Dr. Karl Albrecht suggests the following ways for a person to reduce job stress:[203]

- Build rewarding, pleasant, cooperative relationships with colleagues and employees.
- Don't bite off more than you can chew.
- Talk to your supervisor, for instance to clear the air if the relationship has become tense.
- Negotiate with your boss for realistic deadlines on important projects.
- Learn as much as you can about upcoming events, and get as much lead time as possible to prepare for them.
- Find time every day for detachment and relaxation.
- Take a walk around the office to keep your body refreshed and alert.
- Find ways to reduce unnecessary noise.
- Reduce the amount of trivia in your job; delegate routine work when possible.
- Limit interruptions.
- Don't put off dealing with distasteful problems.
- Make a constructive "worry list" that includes solutions for each problem.
- Get more and better quality sleep.[204]
- Establish boundaries, such as by not checking email from home after 10 P.M.
- Get some support, by speaking with a trusted friend or counselor.

Meditation is an option. Choose a quiet place with soft light and sit comfortably. Then focus your thoughts (for example, count breaths or visualize a calming location such as a beach). When your mind wanders, bring it back to focusing your thoughts on your breathing or the beach.[205]

WHAT THE EMPLOYER CAN DO Employers and supervisors play roles in reducing stress. Supportive supervisors and fair treatment are important, so rein in bullying supervisors. Other steps include reducing personal conflicts on the job and encouraging communication between management and employees. One hospital in California introduced an on-site concierge service to help its employees reduce work-related stress. It handles tasks like making vacation plans for employees.[206] Some employers use "resilience training" to help employees deal with stress. As one example, "participants consider previous stressful situations in their lives that they have overcome and identify factors that made the situations manageable."[207] During the pandemic, the CIO at Automatic Data Processing Inc. held 20-minute morning "check-in" meetings with his global team.[208]

One British firm has a three-tiered employee stress-reduction program.[209] First is *primary prevention.* This focuses on ensuring that things like job designs and workflows are correct. Second is *intervention.* This includes individual employee assessment, attitude surveys to find sources of stress, and supervisory intervention. Third is *rehabilitation*, which includes employee assistance programs and counseling.

burnout
The total depletion of physical and mental resources caused by excessive striving to reach an unrealistic work-related goal.

BURNOUT Experts define **burnout** as the total depletion of physical and mental resources caused by excessive striving to reach an unrealistic work-related goal. Burnout manifests itself in symptoms like irritability, discouragement, exhaustion, cynicism, entrapment, and resentment.[210]

In the 2021 pandemic year, 76% of U.S. workers were reportedly experiencing burnout.[211] Employers took remedial steps. These included waiving co-pays for mental health therapy, providing mindfulness/meditation training, and teaching managers to identify signs a worker was having problems. Employers can head off burnout in other ways, for instance, by closely monitoring employees in high-stress jobs.[212]

What can a burnout candidate do? First, watch for warning signs such as tiredness, lack of focus, and depressed mood.[213] In his book *How to Beat the High Cost of Success*, Dr. Herbert Freudenberger suggests:

- ***Break your patterns.*** The more well-rounded your life is, the better protected you are against burnout.
- ***Get away from it all periodically.*** Schedule occasional periods of introspection where you can get away from your usual routine.[214] Another way to reduce burnout is to (try to) put your job aside once you go home.[215] Similarly, take your vacation time: only about 47% of workers used all their paid vacation days recently.[216]
- ***Reassess your goals in terms of their intrinsic worth.*** Are the goals you've set for yourself attainable? Are they really worth the sacrifices?
- ***Think about your work.*** Could you do as good a job without being so intense?
- ***Stay active.*** One study concluded that "the increase in job burnout and depression was strongest among employees who did not engage in physical activity and weakest to the point of non-significance among those engaging in high physical activity."[217]

EMPLOYEE DEPRESSION *Employee depression* is a serious work problem. Experts estimate that depression results in about 200 million lost workdays each year, costing employers $17 to $44 billion annually.[218] People who are depressed also tend to have worse safety records.[219]

One survey found that while about two-thirds of large firms offered employee assistance programs covering depression, only about 14% of employees with depression said they ever used one.[220] Employers therefore need to train supervisors to identify

depression's warning signs, and to counsel those who may need such services to use them.[221] Depression is a disease. It does no more good to tell a depressed person to "snap out of it" than it would to tell someone with a heart condition to stop acting tired. Typical depression warning signs (if they last for more than 2 weeks) include persistent sad, anxious, or "empty" moods; sleeping too little; reduced appetite; loss of interest in activities once enjoyed; restlessness or irritability; and difficulty concentrating.[222]

Solving Computer-Related Ergonomic Problems

OSHA provides an e-tool for designing computer workstations.[223] Its prescriptions include, *place the monitor directly in front of you, ensure it's at arm's length*, and *look away from the monitor every 20 minutes while focusing on something at least 20 feet away*.[224]

NIOSH (the National Institute for Occupational Safety and Health) and others provide general ergonomic recommendations. These include the following:

- Whether sitting or standing, position the keyboard and mouse at elbow level, and the monitor's top just below your eyes.[225]
- Adjust your seat so thighs are parallel to the floor, and feet are on the floor or a footrest.
- Reduce glare with devices such as window shades and indirect lighting.
- Allow the user to position wrists at the same level as the elbow.[226]
- Take a 3- to 5-minute break from working at the computer every 20–40 minutes.
- Give workers a preplacement vision exam to ensure properly corrected vision.[227]

Repetitive Motion Disorders

Repetitive motion disorders include carpal tunnel syndrome and tendonitis. They result from too many uninterrupted repetitions of an activity or motion, or from unnatural motions such as twisting the arm or wrist. It affects people who perform repetitive tasks such as assembly line or computer work. Employers can reduce the problem, for instance, with programs to help workers adjust their work pace.[228]

Sitting

Studies suggest that people who sit a lot are in poorer health. They need to get up and walk around about 30 or so times a day; that's why apps (such as iPhone's health app) prompt users to walk around hourly.[229] Standing desks and slow treadmills (up to 3–4 miles/hour) are other options.[230]

Infectious Diseases

As became clear with COVID-19, employers can take steps to inhibit the entry or spread of infectious diseases.[231] In general, steps include

1. Monitor the Centers for Disease Control and Prevention (www.cdc.gov) travel alerts.
2. Encourage employees to receive immunizations.
3. Provide daily medical screenings for employees returning from infected areas.
4. Deny access for 10 days to employees or visitors who have had contact with suspected infected individuals.
5. Tell employees to stay home if they have a fever or respiratory system symptoms.
6. Clean work areas and surfaces regularly.
7. Practice hand hygiene, and make sanitizers easily available.
8. Encourage wearing respirators as appropriate, and make them available.
9. Stagger breaks. Offer several lunch periods to reduce overcrowding.[232]

For COVID-19, most employers provided masks, sanitizers, and testing.[233] SHRM provides a post–COVID-19 back-to-work checklist.[234] Steps include implementing a health screening program, developing an exposure-response plan, providing personal protective equipment such as masks, and having detailed cleaning procedures.

Workplace Smoking

Smoking is a serious health and cost problem. For employers, costs derive from higher health and fire insurance, increased absenteeism, and reduced productivity (as when smokers take a 10-minute smoking break).

The manager can probably deny a job to someone who smokes, as long as smoking isn't used as a surrogate for other discrimination.[235] Federal laws don't expressly prohibit discrimination against people who smoke. However, if most of those who smoke in a company also happen to be minorities, antismoking activities could be viewed as discriminatory. At least seventeen states and the District of Columbia ban discriminating against people who smoke.[236] Most employers these days ban indoor smoking (including vaping), often designating small outdoor areas where smoking is permitted. Many states and municipalities now ban indoor smoking in public areas.[237] With vaping laws in flux, employers should check the status of their local and state laws.[238] NIOSH suggests prohibiting both tobacco smoke and e-cigarettes from the workplace.[239]

LEARNING OBJECTIVE 16-7

Discuss the prerequisites for a security plan and how to set up a basic security program.

Occupational Security and Risk Management

Enterprise Risk Management

Enterprise risk management is "the process of assessing exposures to loss within an operation and determining how best to eliminate, manage or otherwise reduce the risk of an adverse event from having a negative impact on the business."[240]

Companies face many risks, only some of which are OSHA-type risks to employees' health and safety. Other risks include, for instance, natural disaster risks, financial risks, and risks to the firm's computer systems. *Human capital risks* rank high. These include accident-causing risks like those we discussed earlier in this chapter but also, for instance, "risks" from unionization and from deficient staffing plans.[241]

How the employer manages a risk depends on the type of risk. For example, *internal preventable* risks arise from actions within the company and include things like employees' illegal conduct or workplace accidents.[242] Employers manage these risks with methods such as codes of conduct, disciplinary procedures, and safety rules. *Strategy risks* are risks that managers accept as part of executing their strategies, such as the risk a banker takes that a borrower defaults. Employers manage some strategy risks with independent experts (like those who assess insurance risks) and with in-house experts, like the risk managers who help to oversee banks' loan portfolios. *External risks* come from outside the company; they include things like political and natural disasters, and terrorism. Managing external risks involves workforce security planning (addressed next), or tools like scenario planning, used for identifying, analyzing, and planning for multiple possible eventualities.

Workplace Security Planning

Workplace *health and safety* refers to risks of injury or illness to employees. Workplace *security* refers to protecting employees from security risks.[243] These risks include theft, unlawful entry, personal violence, kidnapping, bombings, forcible occupation and sabotage.[244]

Workplace security plans should address actions such as establishing a formal security team; conducting a crime prevention assessment; protecting the firm's intellectual property (for instance, through noncompete agreements); protecting against cyber threats;[245] developing crisis management plans; establishing theft and fraud prevention procedures; preventing workplace violence; and installing facility security systems ranging from fences to electronic devices.[246] Most firms also have procedures for incoming packages, and hold regular emergency evacuation drills.

Preventing and Dealing with Violence at Work

Violence against employees is a huge problem.[247] OSHA says homicide is the fourth-leading cause of fatal occupational injuries in America.[248] In a study of emergency room physicians, 47% reported being physically assaulted, mainly by patients (many of whom said they'd return to further harm them).[249] Customers, coworkers, and others

including strangers and spouses may all cause harm. Some occupations (such as taxi driver) are much more prone to violence at work.[250] Employers who fail to take reasonable steps to abate violence hazards can be cited under OSHA rules.[251]

Many workplace violence incidents by coworkers are predictable and avoidable. *Risk Management Magazine* estimates that about 86% of past workplace violence incidents were anticipated by coworkers, who had brought them to management's attention prior to the incidents actually occurring. Yet management usually did little or nothing.[252] Human resource managers can take several steps to reduce workplace violence risks.

HEIGHTEN SECURITY MEASURES Heightened security measures (such as restricting access) are the first line of anti-violence defense. According to OSHA, measures should include those in Figure 16-7.

FIGURE 16-7 How to Heighten Security in Your Workplace

- Improve external lighting.
- Use drop safes to minimize cash on hand.
- Post signs noting that only a limited amount of cash is on hand.
- Install silent alarms and surveillance cameras.
- Increase the number of staff on duty.
- Provide staff training in conflict resolution and nonviolent response.
- Close establishments during high-risk hours late at night and early in the morning.
- Issue a weapons policy; for instance, "firearms or other dangerous or deadly weapons cannot be brought onto the facility either openly or concealed."

Source: See "Creating a Safer Workplace: Simple Steps Bring Results," *Safety Now September 2002*, pp. 1-2. See also www.osha.gov/OshDoc/data_General_Facts/factsheet-workplaceviolence.pdf, accessed September 22, 2015.

IMPROVE EMPLOYEE SCREENING With about 30% of workplace attacks committed by coworkers, screening out potentially violent applicants is the employer's next line of defense.

Both personal and situational factors correlate with workplace aggression. Men and individuals scoring higher on "trait anger" (the predisposition to respond to situations with hostility) are more likely to exhibit aggression. In terms of the situation, interpersonal injustice and poor leadership can trigger aggression against supervisors.[253]

Employers can screen out potentially violent workers before they're hired. Obtain an employment application, and check the applicant's employment history, education, and references.[254] Sample interview questions include "What frustrates you?" and "Who was your worst supervisor and why?"[255] Certain background circumstances, such as the following, may call for more in-depth background checking:[256]

- An unexplained gap in employment
- Incomplete or false information on the résumé or application
- A negative, unfavorable, or false reference
- Prior insubordinate or violent behavior on the job[257]
- A criminal history involving harassing or violent behavior
- A prior termination for cause with a suspicious (or no) explanation
- History of substance use disorder
- Some active shooters signal their intentions, either in personal threats or on social media.[258]
- Strong indications of instability as indicated, for example, by frequent job changes or geographic moves
- Lost licenses or accreditations[259]
- Past conflicts (especially if violence was involved) with coworkers
- Past convictions for violent crimes

ESTABLISH A ZERO-TOLERANCE POLICY TOWARD WORKPLACE VIOLENCE This should cover all workers and *anyone* who may come in contact with company personnel.[260]

USE WORKPLACE VIOLENCE TRAINING You can also train supervisors to notice the clues that typify potentially violent current employees. Common clues include[261]

- An act of violence on or off the job
- Erratic behavior evidencing a loss of perception or awareness of actions

- Overly confrontational or antisocial behavior
- Sexually aggressive behavior
- Isolationist or loner tendencies
- Insubordinate behavior with a threat of violence
- Tendency to overreact to criticism
- Exaggerated interest in war, guns, violence, mass murders, catastrophes, and so on
- Commission of a serious breach of security
- Possession of weapons, guns, knives, or like items in the workplace
- Violation of privacy rights of others, such as searching desks or stalking
- Chronic complaining and the raising of frequent, unreasonable grievances
- A retributory or get-even attitude

GUIDELINES FOR FIRING A HIGH-RISK EMPLOYEE When firing a high-risk employee:

- Plan all aspects of the meeting, including its time, location, the people to be present, and agenda.
- Involve security enforcement personnel.
- Conduct the meeting in a room with a door leading to the outside of the building.
- Advise the employee that the person is no longer permitted onto the employer's property.
- Keep the termination brief and to the point.
- Make sure the person returns all company-owned property at the meeting.
- Don't let the person return to his or her workstation.
- Conduct the meeting early in the week and early in the morning so the person has time to meet with employment counselors or support groups.
- Offer as generous a severance package as possible.
- Protect the employee's dignity by not advertising the event.[262]
- Managers associated with the dismissal should for a time exercise personal caution.[263]
- Employers should consider hiring a security expert to monitor, for a time, the former employee's social media for threats.[264]

VIOLENCE TOWARD WOMEN AT WORK Homicides account for about 10% of those who die at work each year.[265] Men have more fatal occupational injuries than do women, but the proportion of female victims of assault is much higher. The Gender-Motivated Violence Act (part of the Violence Against Women Act) imposes liabilities on employers whose women employees become violence victims.[266] Of all females murdered at work, more than three-fourths are victims of random criminal violence by assailants unknown to the victims. Family members, coworkers, or acquaintances commit the rest. Security improvements including better lighting, cash-drop boxes, and similar steps can help. Employees should have access to domestic crisis hotlines,[267] and to employee assistance programs.

Securing the Facility

In simplest terms, instituting a basic facility security program requires five steps: analyzing the current *level* of risk, and then installing *mechanical, digital, natural*, and *organizational* security barriers.[268]

Preferably, a risk assessment team meets periodically to review risk level and potential threats. It typically starts by analyzing the facility's current *level of risk.* Here, start with the obvious (one project engineer says he's been in more plants with unlocked back doors than locked ones).[269] Other obvious questions would include, what is the neighborhood like?[270] Does your facility house other businesses that might bring unsafe activities? What kind of physical security systems and controls are in place now? And, How do we enforce security policies?[271] To assist its risk/threat assessment, the team may review these matters:

1. ***Reception area access*****,** including silent, concealed alarms at reception desk;[272]
2. ***Interior security*****,** including access-control locks on access doors, and secure restrooms;[273]

3. ***Authorities' involvement***, including procedures developed with local law enforcement, and ambulance and hospital services;[274]
4. ***Mail handling***, including screening and opening mail;
5. ***Evacuation***, including evacuation procedures and training; and
6. ***Backup systems***, such as storing data off site.

Having assessed the current risk level, the employer then turns to improving natural, mechanical, digital, and organizational security.[275]

Natural security means capitalizing on the facility's natural or architectural features to minimize security problems. For example, do too many entrances hamper controlling facility access?

Mechanical security means using security systems such as locks, intrusion alarms, access control systems, and surveillance systems.[276] For example, install key-card access systems at main entrances and on other appropriate doors.[277]

Digital-based security means using digital devices such as sensors. *Digital devices* (such as Ring, part of the "Internet of things") revolutionized security. Sensor technology lets a facility's assets communicate their operational status. Data analytics platforms analyze this data; artificial intelligence (AI) software then reports problems. And with cloud technology, safety managers can monitor and control the facility's key assets from anywhere.[278]

Finally, *organizational security* means using good management to improve security. For example, it means properly training and motivating security staff and lobby attendants. Ensure that the security staff has written orders that define their duties, for instance in situations such as fire, elevator entrapment, hazardous materials spills, medical emergencies, suspicious packages, and workplace violence.[279]

Remember, however, that security *systems* are not enough. In particular, having security personnel (who should be challenging visitors) nonchalantly letting all through, will defeat your systems. At the end of the day, security is as much (or more) an employee selection, training, evaluation, and motivation problem as a mechanical one.

Terrorism

The employer can take several steps to protect its employees and physical assets from the risk of terrorist attack. These steps, now familiar at many workplaces, include the following:[280]

- Screen the identities of everyone entering the premises.
- Check mail carefully.
- Identify ahead of time a lean interim "crisis organization" that can run the company after a threat.
- Identify in advance under what conditions you will close the company down, and the shutdown process.
- Institute a process to put a crisis management team together.
- Prepare evacuation plans, and make sure exits are well marked and unblocked.
- Designate an employee who will communicate with families and off-site employees.
- Identify an upwind, off-site location near your facility as a staging area for all evacuated personnel.
- Designate in advance several employees who will do headcounts at the staging area.
- Establish an emergency communications procedure, for instance based on Twitter.

Cybersecurity

Data protection and cybersecurity are specialized areas requiring special expertise.[281] However, some basic guidelines would include: First, *data security is everyone's responsibility*.[282] IT installs firewalls and password systems. However, every employee plays a security role, from the CEO setting policy to employees guarding their passwords. Second, "*old data is bad data.*" In other words, destroy unneeded old personal data (say from five years ago) unless it's absolutely required. Third, *encrypt*. That includes data in employees' laptops. Fourth, *monitor*. The IT staff should periodically assess cyber risks. Two of many cybersecurity consultants include Kroll,[283] and KPMG.[284]

Many employers install video security cameras to monitor areas in and around their premises.

New Africa/Shutterstock

Business Continuity and Emergency Plans

To help the employer prepare for potential disasters, the HR department should develop a plan, identify key responsibilities, make sure all employees are aware of the plan, and train employees regularly.[285] Such plans should cover *early detection of a problem, methods for communicating the emergency externally*, and *communications plans for initiating an evacuation.* The initial alarm should come first. The employer should follow that with an announcement providing specific information about the emergency, and letting employees know what action they should take.[286] OSHA requires written emergency action plans.[287]

The employer also needs plans for *business continuity* in the event of a disaster. The employer can designate a secure area of its website for emergency employee communications, listing such things as expected hours of operation, facilities opening schedules, and alternative work locations.[288] The disaster plans should include establishing a command center and identifying employees considered essential in the event of a disaster, including responsibilities for each. The U.S. government site Ready.gov provides detailed sample business continuity plans.[289]

Chapter Review

Chapter Section Summaries

16-1. The subject **safety and the manager** concerns managers for several reasons, one of which is the number of workplace accidents. Reducing accidents often boils down to reducing accident-causing conditions and accident-causing acts. However, safety always starts at the top.

16-2. Because of this, all managers need to be familiar with **occupational safety law**. The Occupational Safety and Health Act was passed by Congress in 1972 "to assure so far as possible . . ." every worker has safe and healthful working conditions. The act created the Occupational Safety and Health Administration (OSHA).

16-3. There are three basic **causes of workplace accidents**: chance occurrences, unsafe conditions, and employees' unsafe acts. Unsafe conditions include things like improperly guarded equipment and hazardous procedures. Unsafe acts

sometimes reflect personality traits such as impatience.

16-4. **How to prevent accidents** boils down to reducing unsafe conditions and reducing unsafe acts. Reducing unsafe conditions is the first line of defense and includes following OSHA standards. There are then several basic approaches to reducing unsafe acts, for instance, through proper selection and placement, training, positive reinforcement, behavior-based safety, and conducting safety and health audits.

16-5. The centerpiece of Milliken's safety process is its *involvement-based* employee **engagement program**. Milliken's employees staff the steering and safety subcommittee system, submit "opportunity for improvement" suggestions weekly, review each of these suggestions, and provide feedback on every suggestion.

16-6. Most **workplace health hazards** aren't obvious, as is unguarded equipment. Typical hazards include chemicals, biohazards, and improperly designed equipment. Managing hazards like these comes under the area of industrial hygiene, and involves recognition, evaluation, and control. Stress, burnout, and depression are serious workplace problems; both the employee and employer can take steps to deal with them. Employers especially need to train supervisors to identify depression's warning signs, and to counsel those needing special services.

16-7. Most employers have **occupational security and risk management programs**. Heightened security measures are an employer's first line of defense against attacks on workers, and include, for instance, improving external lighting. Screening can reduce the risk of hiring potentially violent employees. Instituting a basic facility security program involves analyzing the current level of risk, and then installing mechanical, natural, and organizational security systems.

Discussion Questions

16-1. Explain how to reduce the occurrence of unsafe acts on the part of your employees.

16-2. Explain the supervisor's role in safety.

16-3. Explain what causes unsafe acts.

16-4. Describe at least five techniques for reducing accidents.

16-5. Explain how you would reduce stress at work.

Individual and Group Activities

16-6. Working individually or in groups, answer the question, "Is there such a thing as an accident-prone person?"

16-7. Working individually or in groups, compile a list of the factors at work or in school that create stress for you. What methods do you use for dealing with the stress?

16-8. The HRCI *Exam Content Outline* website https://www.hrci.org/docs/default-source/web-files/phr-exam-content-outline.pdf?sfvrsn=13c44f61_28 lists the knowledge someone studying for the HRCI PHR certification exam needs to have in each area of human resource management (such as in Business Management, and in Talent Planning and Acquisition.[290] In groups of several students, do four things: (1) review the *Exam Content Outline* on that website; (2) identify the material in this chapter that relates to the Exam Content Outline's required "Knowledge Of" lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.

16-9. A safety journal presented some information about what happens when OSHA refers criminal complaints about willful violations of OSHA standards to the U.S. Department of Justice (DOJ). In one 20-year period, of the 119 cases OSHA referred to the DOJ, only 9 resulted in prison time for at least one of the defendants. "The Department of Justice is a disgrace," charged the founder of an organization for family members of workers killed on the job. One possible explanation for this low conviction rate is that the crime in cases like these is generally a misdemeanor, not a felony, and the DOJ generally tries to focus its attention on felony cases. Given this information, what implications do you think this has for how employers and their managers should manage their safety programs, and why do you take that position?

16-10. A 315-foot-tall, 2-million-pound crane collapsed on a construction site in East Toledo, Ohio, killing four ironworkers. Do you think catastrophic failures like this are avoidable? If so, what steps would you suggest the general contractor take to avoid a disaster like this?

Experiential Exercise

How Safe Is My University?

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Purpose: The purpose of this exercise is to give you practice in identifying unsafe conditions.

Required Understanding: You should be familiar with material covered in this chapter, particularly that on unsafe conditions and that in Figures 16-6 and 16-8.

How to Set Up the Exercise/Instructions: Divide the class into groups of four. Assume that each group is a safety

GENERAL

	OK	ACTION NEEDED
1. Is the required OSHA workplace poster displayed in your place of business as required where all employees are likely to see it?	☐	☐
2. Are you aware of the requirement to report all workplace fatalities and any serious accidents (where five or more are hospitalized) to a federal or state OSHA office within 48 hours?	☐	☐
3. Are workplace injury and illness records being kept as required by OSHA?	☐	☐
4. Are you aware that the OSHA annual summary of workplace injuries and illnesses must be posted by February 1 and must remain posted until March 1?	☐	☐
5. Are you aware that employers with 10 or fewer employees are exempt from the OSHA record-keeping requirements, unless they are part of an official BLS or state survey and have received specific instructions to keep records?	☐	☐
6. Have you demonstrated an active interest in safety and health matters by defining a policy for your business and communicating it to all employees?	☐	☐
7. Do you have a safety committee or group that allows participation of employees in safety and health activities?	☐	☐
8. Does the safety committee or group meet regularly and report, in writing, its activities?	☐	☐
9. Do you provide safety and health training for all employees requiring such training, and is it documented?	☐	☐
10. Is one person clearly in charge of safety and health activities?	☐	☐
11. Do all employees know what to do in emergencies?	☐	☐
12. Are emergency telephone numbers posted?	☐	☐
13. Do you have a procedure for handling employee complaints regarding safety and health?	☐	☐

WORKPLACE

ELECTRICAL WIRING, FIXTURES, AND CONTROLS

	OK	ACTION NEEDED
1. Are your workplace electricians familiar with the requirements of the National Electrical Code (NEC)?	☐	☐
2. Do you specify compliance with the NEC for all contract electrical work?	☐	☐
3. If you have electrical installations in hazardous dust or vapor areas, do they meet the NEC for hazardous locations?	☐	☐
4. Are all electrical cords strung so they do not hang on pipes, nails, hooks, etc.?	☐	☐
5. Is all conduit, BX cable, etc., properly attached to all supports and tightly connected to junction and outlet boxes?	☐	☐
6. Is there no evidence of fraying on any electrical cords?	☐	☐
7. Are rubber cords kept free of grease, oil, and chemicals?	☐	☐
8. Are metallic cable and conduit systems properly grounded?	☐	☐
9. Are portable electric tools and appliances grounded or double insulated?	☐	☐
10. Are all ground connections clean and tight?	☐	☐
11. Are fuses and circuit breakers the right type and size for the load on each circuit?	☐	☐
12. Are all fuses free of "jumping" with pennies or metal strips?	☐	☐
13. Do switches show evidence of overheating?	☐	☐
14. Are switches mounted in clean, tightly closed metal boxes?	☐	☐
15. Are all electrical switches marked to show their purpose?	☐	☐
16. Are motors clean and kept free of excessive grease and oil?	☐	☐
17. Are motors properly maintained and provided with adequate overcurrent protection?	☐	☐
18. Are bearings in good condition?	☐	☐
19. Are portable lights equipped with proper guards?	☐	☐
20. Are all lamps kept free of combustible material?	☐	☐
21. Is your electrical system checked periodically by someone competent in the NEC?	☐	☐

Develop your own checklist.

These are only sample questions.

FIGURE 16-8 Self-Inspection Safety and Health Checklist

Source: From OSHA Self-Inspection Checklist for General Industry, from http://www.safetyhouse.ir/safetyhouse/file/OSHA%20Self-Inspection%20Checklist%20for%20General%20Industry.pdf, accessed April 10, 2018.
Note: For a more extensive checklist, see "Self-Inspection Checklists," www.osha.gov/Publications/smallbusiness/small-business.html#check, accessed April 10, 2018.

EXITS AND ACCESS	OK	ACTION NEEDED	Develop your own checklist.
1. Are all exits visible and unobstructed?	☐	☐	
2. Are all exits marked with a readily visible sign that is properly illuminated?	☐	☐	
3. Are there sufficient exits to ensure prompt escape in case of emergency?	☐	☐	These are only sample questions.
4. Are areas with restricted occupancy posted and is access/egress controlled by persons specifically authorized to be in those areas?	☐	☐	
5. Do you take special precautions to protect employees during construction and repair operations?	☐	☐	

FIRE PROTECTION	OK	ACTION NEEDED
1. Are portable fire extinguishers provided in adequate number and type?	☐	☐
2. Are fire extinguishers inspected monthly for general condition and operability and noted on the inspection tag?	☐	☐
3. Are fire extinguishers recharged regularly and properly noted on the inspection tag?	☐	☐
4. Are fire extinguishers mounted in readily accessible locations?	☐	☐
5. If you have interior standpipes and valves, are these inspected regularly?	☐	☐
6. If you have a fire alarm system, is it tested at least annually?	☐	☐
7. Are employees periodically instructed in the use of extinguishers and fire protection procedures?	☐	☐
8. If you have outside private fire hydrants, were they flushed within the last year and placed on a regular maintenance schedule?	☐	☐
9. Are fire doors and shutters in good operating condition?	☐	☐
Are they unobstructed and protected against obstruction?	☐	☐
10. Are fusible links in place?	☐	☐
11. Is your local fire department well acquainted with your plant, location, and specific hazards?	☐	☐
12. Automatic sprinklers:		
Are water control valves, air, and water pressures checked weekly?	☐	☐
Are control valves locked open?	☐	☐
Is maintenance of the system assigned to responsible persons or a sprinkler contractor?	☐	☐
Are sprinkler heads protected by metal guards where exposed to mechanical damage?	☐	☐
Is proper minimum clearance maintained around sprinkler heads?	☐	☐

HOUSEKEEPING AND GENERAL WORK ENVIRONMENT	OK	ACTION NEEDED
1. Is smoking permitted in designated "safe areas" only?	☐	☐
2. Are NO SMOKING signs prominently posted in areas containing combustibles and flammables?	☐	☐
3. Are covered metal waste cans used for oily and paint-soaked waste?	☐	☐
Are they emptied at least daily?	☐	☐
4. Are paint spray booths, dip tanks, etc., and their exhaust ducts cleaned regularly?	☐	☐
5. Are stand mats, platforms, or similar protection provided to protect employees from wet floors in wet processes?	☐	☐
6. Are waste receptacles provided and are they emptied regularly?	☐	☐
7. Do your toilet facilities meet the requirements of applicable sanitary codes?	☐	☐
8. Are washing facilities provided?	☐	☐
9. Are all areas of your business adequately illuminated?	☐	☐
10. Are floor load capacities posted in second floors, lofts, storage areas, etc.?	☐	☐
11. Are floor openings provided with toe boards and railings or a floor hole cover?	☐	☐
12. Are stairways in good condition with standard railings provided for every flight having four or more risers?	☐	☐
13. Are portable wood ladders and metal ladders adequate for their purpose, in good condition, and provided with secure footing?	☐	☐
14. If you have fixed ladders, are they adequate, and are they in good condition and equipped with side rails or cages or special safety climbing devices, if required?	☐	☐
15. For loading docks:		
Are dockplates kept in serviceable condition and secured to prevent slipping?	☐	☐
Do you have means to prevent car or truck movement when dockplates are in place?	☐	☐

FIGURE 16-8 ***Continued***

MACHINES AND EQUIPMENT

	OK	ACTION NEEDED
1. Are all machines or operations that expose operators or other employees to rotating parts, pinch points, flying chips, particles, or sparks adequately guarded?	☐	☐
2. Are mechanical power transmission belts and pinch points guarded?	☐	☐
3. Is exposed power shafting less than 7 feet from the floor guarded?	☐	☐
4. Are hand tools and other equipment regularly inspected for safe condition?	☐	☐
5. Is compressed air used for cleaning reduced to less than 30 psi?	☐	☐
6. Are power saws and similar equipment provided with safety guards?	☐	☐
7. Are grinding wheel tool rests set to within 1/8 inch or less of the wheel?	☐	☐
8. Is there any system for inspecting small hand tools for burred ends, cracked handles, etc.?	☐	☐
9. Are compressed gas cylinders examined regularly for obvious signs of defects, deep rusting, or leakage?	☐	☐
10. Is care used in handling and storing cylinders and valves to prevent damage?	☐	☐
11. Are all air receivers periodically examined, including the safety valves?	☐	☐
12. Are safety valves tested regularly and frequently?	☐	☐
13. Is there sufficient clearance from stoves, furnaces, etc., for stock, woodwork, or other combustible materials?	☐	☐
14. Is there clearance of at least 4 feet in front of heating equipment involving open flames, such as gas radiant heaters, and fronts of firing doors of stoves, furnaces, etc.?	☐	☐
15. Are all oil and gas fired devices equipped with flame failure controls that will prevent flow of fuel if pilots or main burners are not working?	☐	☐
16. Is there at least a 2-inch clearance between chimney brickwork and all woodwork or other combustible materials?	☐	☐
17. For welding or flame cutting operations:		
Are only authorized, trained personnel permitted to use such equipment?	☐	☐
Have operators been given a copy of operating instructions and asked to follow them?	☐	☐
Are welding gas cylinders stored so they are not subjected to damage?	☐	☐
Are valve protection caps in place on all cylinders not connected for use?	☐	☐
Are all combustible materials near the operator covered with protective shields or otherwise protected?	☐	☐
Is a fire extinguisher provided at the welding site?	☐	☐
Do operators have the proper protective clothing and equipment?	☐	☐

Develop your own checklist.

These are only sample questions.

MATERIALS

	OK	ACTION NEEDED
1. Are approved safety cans or other acceptable containers used for handling and dispensing flammable liquids?	☐	☐
2. Are all flammable liquids that are kept inside buildings stored in proper storage containers or cabinets?	☐	☐
3. Do you meet OSHA standards for all spray painting or dip tank operations using combustible liquids?	☐	☐
4. Are oxidizing chemicals stored in areas separate from all organic material except shipping bags?	☐	☐
5. Do you have an enforced NO SMOKING rule in areas for storage and use of hazardous materials?	☐	☐
6. Are NO SMOKING signs posted where needed?	☐	☐
7. Is ventilation equipment provided for removal of air contaminants from operations such as production grinding, buffing, spray painting and/or vapor degreasing, and is it operating properly?	☐	☐
8. Are protective measures in effect for operations involved with x-rays or other radiation?	☐	☐
9. For lift truck operations:		
Are only trained personnel allowed to operate forklift trucks?	☐	☐
Is overhead protection provided on high lift rider trucks?	☐	☐
10. For toxic materials:		
Are all materials used in your plant checked for toxic qualities?	☐	☐
Have appropriate control procedures such as ventilation systems, enclosed operations, safe handling practices, proper personal protective equipment (such as respirators, glasses or goggles, gloves, etc.) been instituted for toxic materials?	☐	☐

FIGURE 16-8 ***Continued***

Develop your own checklist.

These are only sample questions.

EMPLOYEE PROTECTION	OK	ACTION NEEDED
1. Is there a hospital, clinic, or infirmary for medical care near your business?	☐	☐
2. If medical and first-aid facilities are not nearby, do you have one or more employees trained in first aid?	☐	☐
3. Are your first-aid supplies adequate for the type of potential injuries in your workplace?	☐	☐
4. Are there quick water flush facilities available where employees are exposed to corrosive materials?	☐	☐
5. Are hard hats provided and worn where any danger of falling objects exists?	☐	☐
6. Are protective goggles or glasses provided and worn where there is any danger of flying particles or splashing of corrosive materials?	☐	☐
7. Are protective gloves, aprons, shields, or other means provided for protection from sharp, hot, or corrosive materials?	☐	☐
8. Are approved respirators provided for regular or emergency use where needed?	☐	☐
9. Is all protective equipment maintained in a sanitary condition and readily available for use?	☐	☐
10. Where special equipment is needed for electrical workers, is it available?	☐	☐
11. When lunches are eaten on the premises, are they eaten in areas where there is no exposure to toxic materials, and not in toilet facility areas?	☐	☐
12. Is protection against the effect of occupational noise exposure provided when the sound levels exceed those shown in the OSHA noise standard?	☐	☐

FIGURE 16-6 ***Continued***

committee retained by your college's or university's safety engineer to identify and report on any possible unsafe conditions in and around the school building. Each group will spend about 45 minutes in and around the building you are now in for the purpose of identifying and listing possible unsafe conditions. (Make use of the checklists in Figures 16-6 and 16-8.)

Return to the class in about 45 minutes. A spokesperson for each group should list on the board the unsafe conditions you have identified. How many were there? Do you think these also violate OSHA standards? How would you go about checking?

Application Case

Amazon's New Safety Program

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For Amazon, the 2020–2022 pandemic years drove a surge in demand. Its workforce jumped by over 50%, to about 1.3 million employees. It announced its first quarterly revenues of over $100 billion.

But with growth came challenges. In a tight labor market, Amazon had to add hundreds of thousands of workers. The employment spurt highlighted safety challenges. In 2020, Amazon warehouse workers suffered 5.9 serious injuries for every 100 warehouse workers. That's almost 80% higher than that at non-Amazon companies. Amazon's *overall* injury rate was 6.5 cases per 100 workers, over twice Walmart's rate. Then, in 2022, for the first time, a union organized an Amazon warehouse, in Staten Island, New York.

In 2022, Amazon modified its strategy. Founder Jeff Bezos said, "we have always wanted to be Earth's most customer centric company." [But now we're also,] ". . . going to be Earth's best employer and Earth's safest place to work." In 2021 they announced they would spend over $300 million on safety programs.

Amazon branded its new safety program "Working Well." It consists of three programs. *Health & Safety Huddles* involve supervisors meeting briefly every day with their teams to discuss safety. They watch a short safety video, and discuss safety, such as best practices for lifting.

Wellness Zones gives employees dedicated spaces for things like muscle recovery exercises. The Zones include information and videos on matters such as best practices in stretching. Third, the *AmaZen* program provides mindfulness experiences, using kiosks at work. Employees can watch short videos, and take guided meditation sessions, for instance.

Questions

16-11. Should Amazon screen out accident-prone individuals? Why or why not? If so, how should they screen them?

16-12. List at least five examples of how the new health and safety actions taken by Amazon reflect what you would have recommended based on what you read in this chapter.

16-13. What other health and safety actions would you recommend for them now, and why?

16-14. Define *strategic human resource management*, and explain how Amazon's new health and safety programs fit (or don't fit) its new strategy.

Continuing Case

Carter Cleaning Company

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The New Safety Program

Employees' safety and health are very important matters in the laundry and cleaning business. Each facility is a small production plant in which machines, powered by high-pressure steam and compressed air, work at high temperatures washing, cleaning, and pressing garments, often under very hot, slippery conditions. Chemical vapors are produced continually, and caustic chemicals are used in the cleaning process. High-temperature stills are almost continually "cooking down" cleaning solvents in order to remove impurities so that the solvents can be reused. If a mistake is made in this process—like injecting too much steam into the still—a boilover occurs, in which boiling chemical solvent erupts out of the still and over the floor, and on anyone who happens to be standing in its way.

As a result of these hazards and the fact that chemically hazardous waste is continually produced in these stores, several government agencies (including OSHA and the Environmental Protection Agency) have instituted strict guidelines regarding the management of these plants. For example, posters have to be placed in each store notifying employees of their right to be told what hazardous chemicals they are dealing with and what the proper method for handling each chemical is. Special waste-management firms must be used to pick up and properly dispose of the hazardous waste.

A chronic problem the Carters (and most other laundry owners) have is the unwillingness on the part of the cleaning/spotting workers to wear safety goggles. Not all the chemicals they use require safety goggles, but some—like the hydrofluoric acid used to remove rust stains from garments—are very dangerous. The latter is kept in special plastic containers, since it dissolves glass. The problem is that wearing safety goggles can be troublesome. They are somewhat uncomfortable, and they become smudged easily and thus cut down on visibility. As a result, Jack has always found it almost impossible to get these employees to wear their goggles.

Questions

16-15. How should the firm go about identifying hazardous conditions that should be rectified? Use checklists such as those in Figures 16-6 and 16-8 to list at least 10 possible dry cleaning store hazardous conditions.

16-16. Would it be advisable for the firm to set up a procedure for screening out accident-prone individuals? How should they do so?

16-17. How would you suggest the Carters get all employees to behave more safely at work? Also, how would you advise them to get those who should be wearing goggles to do so?

Translating Strategy into HR Policies and Practices Case*,§

**The overall strategy map on the inside back cover of this text outlines the relationships involved.*

CHAPTER 16

Improving Performance at the Hotel Paris

The New Safety and Health Program

The Hotel Paris's competitive strategy is "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy and boost performance, by eliciting the required employee behaviors and competencies.

While "hazardous conditions" might not be the first thing that comes to mind when you think of hotels, Lisa Cruz knew that hazards and safety were in fact serious issues for the Hotel Paris. Indeed, everywhere you look—from the valets leaving car doors open on the driveways to slippery areas around the pools, to thousands of pounds of ammonia, chlorine, and other caustic chemicals that the hotels use each year for cleaning and laundry, hotels provide a fertile environment for accidents. Obviously, hazardous conditions are bad for the Hotel Paris. They are inhumane for the workers. High accident rates probably reduce employee morale and thus service. And accidents raise the company's costs and reduce its profitability, for instance, in terms of workers' compensation claims and absences. Lisa knew that she had to clean up her firm's occupational safety and health systems, for its employees' well-being, and to achieve the company's strategic goals.

Lisa and the CFO reviewed their company's safety records, and what they found disturbed them. In terms of every safety-related metric they could find, including accident costs per year, lost time due to accidents, workers' compensation per employee, and number of safety training programs per year, the Hotel Paris compared unfavorably with most other hotel chains and service firms. "Just in terms of extra workers' compensation costs, the Hotel Paris must be spending $500,000 a year more than we should be," said the CFO. (France manages its "workers compensation" under its Social Security programs.) And that $500,000 didn't include lost time due to accidents, or the negative effect accidents had on employee morale, or the cost of litigation (as when, for instance, one guest accidentally got burned with chlorine that a pool attendant had left unprotected). The CFO authorized Lisa to develop a new safety and health program.

Lisa and her team began by hiring a safety and health consultant, someone who had been an inspector and then manager with OSHA. Based on the analysis, the team then took numerous steps, including the following. First, specially trained teams consisting of someone from Lisa's HR group, the local hotel's assistant manager, and three local hotel employees went through each local hotel "with a fine-tooth comb," as Lisa put it. They used an extensive checklist to identify and eliminate unsafe conditions.

Lisa's team took other steps. They convinced the Hotel Paris's board of directors and CEO to issue a joint statement emphasizing the importance of safety. The CEO, during a one-month period, visited each hotel to meet with all employees and emphasize safety. The Hotel Paris also contracted with a safety training company. This firm created special online safety programs for the company's managers, and developed one-day training seminars for the hotels' staffs.

The new programs seem to be effective. Lisa and the CFO were pleased to find, after about a year, that accident costs per year, lost time due to accidents, and workers' compensation expenses were all down at least 40%. And anecdotal evidence from supervisors suggested that employees feel better about the company's commitment to them and were providing better service as a result.

Questions

16-18. Based on what you read in this chapter of Dessler, *Human Resource Management*, what's the first step you would have

advised the Hotel Paris to take as part of its new safety and health program, and why?

16-19. List 10 specific high-risk areas in a typical hotel you believe Lisa and her team should look at now, including examples of the safety or health hazards that they should look for there.

16-20. Give three specific examples of how the Hotel Paris can use HR practices to improve its safety efforts.

16-21. Write a one-page summary addressing the topic, "How improving safety and health at the Hotel Paris will contribute to us achieving our strategic goals."

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Writing Assignments

16-22. Based on everything you read in this chapter, what is Milliken doing "right" that you believe helps to explain why they have such a good safety record?

16-23. Describe the steps employers can take to reduce workplace violence.

Key Terms

Occupational Safety and Health Act of 1970, 508
Occupational Safety and Health Administration (OSHA), 508
occupational illness, 509
citation, 512
unsafe conditions, 514
job hazard analysis, 516
operational safety reviews, 519
smart PPE, 520
beacons, 520
behavior-based safety, 523
safety awareness program, 523
burnout, 530

Endnotes

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17 Managing Global Human Resources

WHERE ARE WE NOW . . .

More managers today are managing people internationally. The purpose of this chapter is to improve your effectiveness at applying your human resource knowledge and skills when global challenges are involved. The topics we'll discuss include **The Manager's Global Challenge; Adapting Human Resource Activities to Intercountry Differences; Staffing the Global Organization; Training and Maintaining Employees Abroad; Employee Engagement Guide for Managers;** and **Managing HR Locally: How to Put into Practice a Global HR System.**

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

17-1 **List** the HR challenges of international business.

17-2 **Illustrate** with examples how intercountry differences affect HRM.

17-3 **List and briefly describe** the main methods for staffing global organizations.

17-4 **Discuss** some important issues to keep in mind in training, appraising, and compensating international employees.

17-5 **Discuss** similarities and differences in employee engagement around the globe.

17-6 **Explain** with examples how to implement a global human resource management program.

Walmart China was expanding fast, but facing pushback from employees. To keep costs down it was reducing pay and benefits, headcount, and opportunities for training and promotions. Employees were not pleased.[1] We'll see what they did.

LEARNING OBJECTIVE 17-1

List the HR challenges of international business.

The Manager's Global Challenge

You don't have to dig very far to see how important international business is to companies here and abroad. For example, the total of U.S. imports plus exports rose from $582 billion in 1980, to about $5.9 *trillion* recently.[2] That growth has been great for all sorts of businesses, but also confronts managers with special challenges. For one thing, managers have to formulate and execute their marketing, product, and production plans on a global basis. Ford Motor, for instance, has a strategy aimed at offering similar Ford vehicles globally.

"Going global" also requires addressing international human resource management issues. For example, "Should we staff our offices in Japan with local or U.S. managers?" And, "How should we appraise and pay our China employees?"

As we'll see in a moment, the challenging thing about managing HR globally is that what works in one country may not work in another. The employer faces an array of political, social, legal, and cultural differences among countries and people abroad. "Employment at will" in America facilitates laying someone off, while in India or France dismissals can take years. Distance adds to the challenge. For example, how should Starbucks' chief HR officer in Seattle monitor Starbucks' human resource managers in China? Yet, challenging or not, the employer has to deal with such questions.

international human resource management (IHRM)
The human resource management concepts and techniques employers use to manage the human resource aspects of their international operations, including acquiring, training, appraising, and compensating employees, and attending to their labor relations, health and safety, and fairness concerns.

What Is International Human Resource Management?

Employers rely on **international human resource management (IHRM)** to deal with global HR challenges like these.[3] We can define IHRM as the human resource management concepts and techniques employers use to manage the human resource aspects of their international operations, including acquiring, training, appraising, and compensating employees, and attending to their labor relations, health and safety, and fairness concerns. IHR managers address questions such as "What steps can we take to support the company's global strategy?" "What's the best way for us to pay our expatriate employees?" and "How can we best staff our assignments abroad?"[4]

LEARNING OBJECTIVE 17-2

Illustrate with examples how intercountry differences affect HRM.

Adapting Human Resource Activities to Intercountry Differences

As we said, the challenges of international human resource management don't just stem from the distances involved (though this is important). The bigger issue is dealing with the cultural, political, legal, and economic differences among countries and their people. The result is that what works in one country might fail in another.

Companies operating only within the United States generally have the luxury of dealing with a relatively limited set of economic, cultural, and legal variables. Economically the United States is a capitalist, competitive society. And while the U.S. workforce reflects a multitude of cultural and ethnic backgrounds, shared values (such as an appreciation for democracy) help to blur cultural differences. Different states and municipalities certainly have their own employment laws. However, a basic federal framework helps produce a predictable set of legal guidelines regarding matters such as employment discrimination and labor relations.

A company operating multiple units abroad doesn't face such homogeneity. For example, minimum legally mandated holidays range from none in the United Kingdom to 5 weeks in Luxembourg. Italy has no formal requirements for employee representatives on boards of directors, but they're usually required in Denmark. The point is that managers have to adapt their human resource policies and practices to the countries in which they're operating. Figure 17-1 sums up critical intercountry differences.

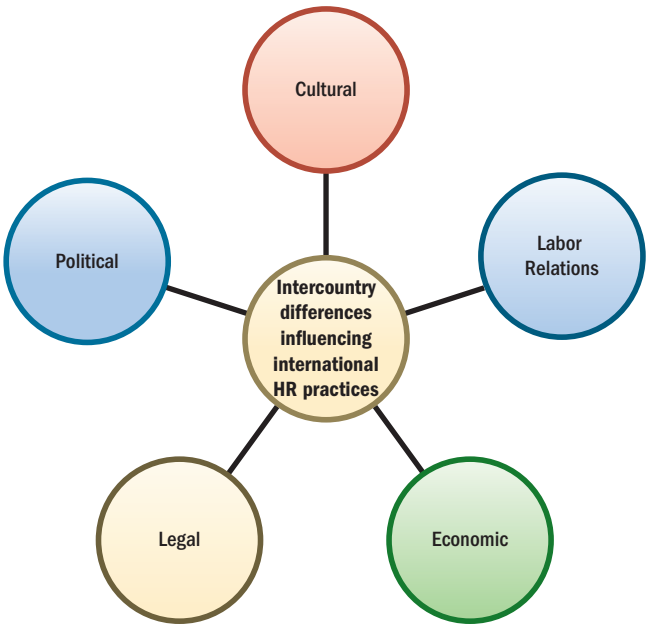


FIGURE 17-1 Critical Intercountry Differences That Influence International HR Practices

Cultural Factors

For example, countries differ widely in their *cultures*—in other words, in the basic values, assumptions, and understandings their citizens share.[5] Peoples' values tend to drive what they do, and so cultural differences manifest themselves in how people in different countries think and act. One Michelin executive said that when he gives performance feedback in France, employees don't think it's necessary to mention what's right, because they know what they've done right. He focuses instead on what's wrong.[6] That approach would surprise most U.S. employees. In China, heads of companies are inclined to see employees as members of their family, but in turn demand much of them.[7]

As another example, one expert says that workers globally tend to have differing attitudes toward authority and decision making.[8] With respect to *authority*, countries range from egalitarian to hierarchical. For example, in the more egalitarian United States and Canada, managers emphasize worker empowerment and soliciting input; in hierarchical countries like Saudi Arabia and Russia, authority clearly flows from top managers. Similarly, differences in how they make decisions characterize different cultures. Thus, in Mexico, top-down decision making is more often the rule, while in Sweden there's more emphasis on consensus decisions. America's "rugged individualism" may mean "selfishness" in Asia.[9]

Such differences can cause consternation for multinational employers. For example, employees in hierarchical countries such as Indonesia might react negatively to a manager from the U.S. soliciting their opinions. Employees in egalitarian countries like Sweden, (where even schoolchildren call their teachers by first names) might react negatively to a boss who emphasizes his or her "bossiness."

It's therefore hard to overemphasize the importance of cross-cultural empathy. Over 70% of international mergers fail, mostly due to cultural miscalculations.[10] As one expert says, "what makes you a success in Asia will doom you to fail in the West and vice versa."[11] Any company establishing a presence in a new country should do its cultural due diligence; make sure you understand how to do business there.

THE HOFSTEDE STUDY Classic studies by Professor Geert Hofstede further illustrate international cultural differences. Hofstede said societies differ in several values, such as what he called *power distance, individualism, masculinity, uncertainty avoidance,* and *long-term orientation.* For example, power distance represents the degree to which less-powerful people accept the unequal distribution of power in society.[12] He concluded

that acceptance of such inequality was higher in some countries (such as Mexico) than in others (such as Sweden).[13] In turn, such differences manifest themselves in different behaviors. To see how one country's culture compares with others, go to https://geerthofstede.com/culture-geert-hofstede-gert-jan-hofstede/6d-model-of-national-culture/.[14] Such cultural differences influence human resource policies and practices. For example, Americans' emphasis on individuality may help explain why European managers have more constraints, such as in dismissing workers.[15] As another example, in countries with a history of autocratic rule, employees often had to divulge information. Here, whistle-blower rules are less popular.[16]

Legal Factors

Employers expanding abroad must also be familiar with the labor laws in the countries they're entering. For example, in India, certain companies dismissing more than 100 workers need government permission to do so.[17] In Brazil, employment is at will, but firing certain employees without "just cause" could trigger a fine of 4% of the total amount the worker ever earned.[18]

Similarly, the U.S. practice of employment at will doesn't exist in Europe, where firing or laying off workers is usually expensive. One firm there hired someone as an independent contractor, only to find later that they owed the person hundreds of thousands of dollars in back taxes and penalties for misclassifying the person.[19] And in many European countries, **works councils**—formal, employee-elected groups of worker representatives—meet monthly with managers on topics ranging from no-smoking policies to layoffs.[20] *Codetermination* is the rule in Germany and several other countries. **Codetermination** means workers have the right to have their own elected representatives on the employer's supervisory board.[21]

works councils
Formal, employee-elected groups of worker representatives.

codetermination
Employees have the legal right to a voice in setting company policies.

Economic Systems

Similarly, differences in *economic systems* translate into differences in intercountry HR practices. In *market* economies (such as the United States), governments play a relatively restrained role in deciding what will be produced and sold at what prices. In *planned* economies (such as North Korea), the government decides and plans what to produce and sell at what price. In *mixed* economies (such as China), many companies are still state owned, while others make decisions based on market demand.

IndianFaces/Shutterstock

Employers need to adapt their HR practices to the cultures of the countries where they do business.

Differences in economic systems tend to translate into differences in human resource management policies. For instance, dismissing employees in China or Europe is more difficult than in the United States. Labor costs also vary widely. For example, hourly compensation costs (in U.S. dollars) for production workers range from $2.10 in the Philippines to $9.46 in Taiwan, $35.67 in the United States, $45.79 in Germany, to $63.86 in Norway.[22]

HR Abroad Example: The European Union

To appreciate the employment effects of cultural, economic, and legal differences like these, consider Europe and China.

The *European Union* (EU) is a political and economic union of 27 European countries.[23] It is a common market for goods, services, capital, and labor, subject to EU laws and regulations.

Companies doing business in Europe must adjust their human resource policies and practices to EU directives (laws), as well as to country-specific employment laws. The directives are binding on all member countries, but each country can implement them as they wish. Some laws are applied fairly similarly across Europe. For example, Germany has high barriers to dismissal, in Italy poor performance is not a reason for dismissal, and in Norway a dismissal must be justified based on the evidence.[24] (Whirlpool Corporation spent more than 3 years trying to eliminate 500 jobs in Italy, for instance.)[25] Other details, such as whether job offers must be in writing, and whether there is a mandatory minimum wage (yes in Germany, no in Austria) vary among European countries.[26]

HR Abroad Example: China

For years, employers relied on China's huge workforce to provide products at low cost. Part of the reason for the low cost was the dearth of labor laws covering things like minimum wages.

But things are changing. For one thing, China's workforce is growing less quickly. For another, China has enacted a new labor law. Multinationals doing business in China say it will raise labor costs and hinder dismissing employees, for instance by introducing new severance rules.[27] However, both local firms and local subsidiaries of multinationals must comply with it.[28] And, of course, they must also all adapt to the way things are done in China.

For example, compared to some Western countries, it can still be challenging to recruit, hire, and retain employees in China. For example, China's employment contract law requires that employers report the names, sexes, identification numbers, and contract terms for employees they hire within 30 days of hiring to local labor bureaus.[29] And all employees must receive a written employment contract.[30] The employer must verify that the applicant is free to sign the new employment contract. The dominant employee selection method involves analyzing the applicant's résumé and then interviewing him or her. The ideal way to do this is to institute a structured interview process, as many foreign firms in China have done.

As another example, Chinese facilities of IBM, PepsiCo, Walmart, and others have seen extensive strikes by Chinese workers.[31] Why? China's labor law expanded workers' rights. Furthermore, an aging population means a diminishing supply of workers. And the government may see strikes as a way of raising workers' incomes. China's All-China Federation of Trade Unions is closely tied to the government.

Strategic Context: Walmart in China

Two researchers studied Walmart's history in China, from its entry in 1996, through 2017. During this time, Walmart China's strategy went through three stages.[32]

Stage I, from 1996–2006, was Walmart's "cautious development" stage. Strategically they were slow to open stores, and adhered to the parent firm's values. For example, they emphasized customer service and trustworthiness. As in America, Walmart treated their new employees in China as "business partners." They got competitive

salaries and benefits, training, and promotional opportunities. The average Walmart China employee earned about 20% more than the local minimum wage, and more on average than at other companies.

Stage II, from 2007–2011, was Walmart China's "rapid expansion" stage. Strategically, Walmart China emphasized store openings, expansion, and cutting costs. Unfortunately the cost cutting prompted Walmart China's management to de-emphasize some Walmart core values, such as treating employees as business partners. Instead, Walmart China's focus now was on reducing pay and benefits, headcount, and opportunities for training and promotions. Once paid in the middle toward the top of what other workers earned, its employees slipped down the pay range.[33]

Stage III, 2012–2017 was Walmart China's "regulation and consolidation" stage. Here, it returned to following some (but not all) of Walmart's core values. For example it reemphasized Walmart's commitment to product quality and customer service. "Consolidation" meant they closed 31 stores. Overall, these steps helped restore Walmart China's reputation with the customer.

However, Walmart China did not go back to the parent company's "good HR policies and practices." For example, there was not the same emphasis now on training and promotions that characterized Stage I. Instead, the emphasis was on downsizing, on more part-time workers, and on cutting human resource costs. This period saw "strong protests" from employees. To some, re-emphasizing customer service while de-emphasizing Walmart's "employees as partners" value seemed discordant. For all its accolades as a retailer, Walmart had difficulty adapting its way of doing things to China.

LEARNING OBJECTIVE 17-3

List and briefly describe the main methods for staffing global organizations.

Staffing the Global Organization

International employers' focus is increasingly on selecting, training, appraising, and managing the in-country employees where they do business. However, deciding whether to fill local positions with local versus expatriate ("imported") employees remains a major concern.

HR in Action at the Hotel Paris On reviewing the data, it was apparent to Lisa and the CFO that the company's global human resource practices were probably inhibiting the Hotel Paris from being the world-class guest services company that it sought to be. The case at the end of this chapter explains what they did.

International Staffing: Home or Local?

In general, we can staff an international company with *expatriates, parent (home-country) nationals, locals (host-country nationals),* or *third-country nationals*.[34] **Expatriates (expats)** are noncitizens of the countries in which they are working. In terms of where they come from, expatriates may be **parent/home-country nationals** (citizens of the country in which the company is headquartered). Or, expatriates may be **third-country nationals**—citizens of a country other than the parent or the host country—for example, a French executive working in the Beijing office of IBM. (And not all expatriates are sent by employers; many business professionals, academics, and recent graduates decide to move, live, and work as expatriates abroad.)[35] **Locals** (also known as *host-country nationals*) work for the company abroad and are citizens of the countries where they are working.

expatriates (expats)
Noncitizens of the countries in which employees are working.

parent or home-country nationals
Citizens of the country in which the multinational company has its headquarters.

third-country nationals
Citizens of a country other than the parent or the host country.

locals
Citizens of the countries in which employees are working; also called *host-country nationals*.

Internationalization Stage, Values, and Staffing Policy

Whether to use expatriates or locals generally depends first on quantifiable considerations, such as comparative costs, and local talent availability. However, it's not just hard facts. In addition, things like top management's personal inclinations, and the company's stage in internationalization affect these decisions too. For example, some companies are just more expat-oriented or local-oriented. Experts here distinguish among *ethnocentric, polycentric*, or *global* companies.

ethnocentric
Here the company staffs its positions abroad with employees from its headquarters—with parent-country nationals, in other words.

polycentric
Here the company staffs positions abroad with local or host-country employees.

global
The global company aims to attract the best candidates globally, including freely using third-country nationals to staff its positions around the world with the best people available.

An **ethnocentrically** oriented company tends to staff positions abroad with employees from its headquarters—with parent-country nationals, in other words.[36] The **polycentric** company staffs positions abroad with both local and host-country employees. [37] The **global** company aims to use the best candidates globally, including third-country nationals, to staff its positions around the world.

The company's stage in internationalization and its managers' inclinations influence whether the company is inclined toward being ethnocentric, polycentric, or global in its staffing.[38] Companies new to the international arena may well run their international operations from "international" units within their corporate headquarters.[39] Here, the practical need to quickly transfer know-how abroad and to maintain a unified corporate culture and tighter control argue for being ethnocentric:[40] The company transfers abroad people (as expatriates) it knows well.

That "international" structure may evolve into a "multinational" structure, where subsidiaries abroad (often with their own HR units) largely control themselves. This tends to favor a polycentric staffing approach. Here local, host-country employees, who know the local conditions best, mostly staff the company's local positions.

Today, the trend is toward being "global" companies. Global companies seek to be fully integrated. For example, a car to be sold throughout the world might be designed in France and manufactured in China and the United States with parts from Japan. Global companies (not surprisingly) tend to use a global philosophy in staffing their positions around the world. They fill positions with the best people—whether host-country nationals, locals, or third-country nationals.

EXPATS VERSUS LOCALS There are other considerations in using expats over locals. The employer may be unable to find local candidates with the required qualifications. Companies like GE traditionally viewed a successful stint abroad as a required step in moving to top management. Home-country managers are already steeped in the firm's policies and culture, and thus more likely to apply headquarters' ways of doing things. Expatriates may also find it easier to coordinate with their former colleagues at the company's headquarters than would host-country locals.[41] However, posting expatriates abroad is expensive, security problems give potential expatriates pause, returning expatriates often soon leave for other employers, and educational facilities are turning out top-quality candidates abroad.

From a practical point of view, most employees will be locals. First, the cost of using expatriates is usually far greater than that of local workers.[42] Local people will also probably better deal with local political issues than will expatriates.[43] Historically, employers reported higher attrition rates for expatriate employees, (21% compared with 10% for general employee populations in one study.)[44] However a recent study found about the same attrition rate (12%) for both.[45]

OTHER SOLUTIONS The choice is not just between expatriate versus local employees. For example, there are "commuter" solutions, involving frequent international travel but no formal relocation.[46] Other firms have a "localization" policy. This means transferring a home-country national employee to a foreign subsidiary as a "permanent transferee."[47] For example, U.S. IBM employees originally from India eventually filled many of the 5,000 jobs that IBM shifted from the United States to India. These employees elected to move back to India, albeit at local India pay rates.

The human resource team needs to control expat expenses, as the accompanying Profit Center feature explains.

HR AS A PROFIT CENTER

Reducing Expatriate Costs

Given the expense of sending employees on overseas assignments, the employer's human resource team plays a big role in controlling and reducing expatriate costs.[48] For example, some companies are upping the numbers of short-term assignments they

make. This lets them use short-term expats to replace some long-term expats (and their families) who the company must maintain abroad for extended periods. Fifty percent of the companies in one survey were also replacing some expatriate postings with local hires. With an eye on cutting costs, many employers were also reviewing their firms' policies regarding such things as housing, education, and home leave, along with expatriate allowances and premiums (cost-of-living allowance and mobility/quality-of-living premiums).[49] The bottom line is that there's a lot human resource managers can do to cut costs by better managing expat assignments. ■

OFFSHORING As we explained in Chapter 5, *offshoring*—moving business processes such as manufacturing or call centers abroad, and thus having local employees abroad do jobs that the firm's domestic employees previously did in-house—is another staffing option.

IBM Business Consulting Services surveyed employers to see what roles HR was playing in offshoring and overseas site selection decisions.[50] Human resource managers help top management:[51]

- To understand the *local labor markets*, for example, in terms of size, education level, and unions.
- To understand how the firm's current *employment-related reputation* in the locale may affect outsourcing to here.
- To decide how much the firm should *integrate the local workforce* into the parent firm's corporate organization. For example, engineers might become employees. Call center employees might best remain employees of vendor firms.
- To deal with local skill shortages.[52] This might require using signing bonuses, higher wages, and improved promotion opportunities.
- To deal with attrition. This might include more training and development, better compensation, and improved career opportunities.

Using Global Virtual Teams

virtual teams
Groups of geographically dispersed and generally same-level coworkers who meet and interact using information technologies to accomplish an organizational task.

Advances in telecommunications of course make it far easier today to carry out international projects and operations using global virtual teams. Global **virtual teams** are groups of geographically dispersed and generally same-level coworkers who meet and interact using information technologies to accomplish an organizational task.[53] For example, two multinational pharmaceutical companies used a multinational team with members from four continents to address detailed postmerger operational integration problems.

In a Zoom and Meta world, virtual teams are practical and popular. Collaborative software systems such as Microsoft Teams,[54] Cisco WebEx,[55] and GoTo Meeting[56] enable virtual teams to hold live project reviews and discussions, share documents and exhibits, and store the sessions on the project's website. Cloud-based tools such as Huddle[57] allow team members to share workspaces "where teams, partners and clients can come together around the content that matters to them."[58] Large-screen tools such as Cisco TelePresence[59] make it seem as if team members are in the same room, although thousands of miles apart.

The main challenges virtual teams face include building trust, cohesion, and team identity, and overcoming isolation among team members. Similarly, if most team members reside in one country, the others may assume the real power also lays in that country. Here the solution is to stress that the team has a unified goal and a common purpose.[60] In any case, HR management has a role in such teams' success. Selecting virtual team members for their interpersonal skills, and then training them to deal with potential problems, is important.

Selecting International Managers

In most respects, screening managers for jobs abroad is similar to screening them for domestic jobs. Candidates need the technical knowledge and skills to do the job, and the required intelligence and people skills. A job analysis to determine key competencies, and a review of candidates' previous work abroad are advisable.[61] Testing is widely used.

However, foreign assignments are different. The expatriate and their family will cope with colleagues whose culture may be very different from their own.[62] And, there's the stress of being in a foreign land. Ironically, one study a while ago concluded, "Traditionally, most selection of expatriates appears to be done solely on the basis of successful records of job performance in the home country."[63] The candidate's ability to adapt to a new culture was often secondary. That's opposite from what it should be.

REALISTIC PREVIEWS For one thing, international assignee selection should include *realistic previews*, and *adaptability screening*.[64] Even in familiar countries there will be language barriers, and challenges for the family including homesickness and the need to adapt to new friends. It's important here to both reduce unrealistic expectations and familiarize the expat with potential challenges and benefits.[65]

Realistic previews about what to expect, covering both problems and benefits, are therefore important. Many employers have prospective expat families meet with recently returned expats and their spouses to get that sort of information. Beyond that, social media such as www.linkedin.com (see their global expat network) and www.expatfinder.com are excellent sources of information, suggestions, support, and employment leads and connections for expats or for those considering a job abroad. A typical link you'll find at those sites is https://www.linkedin.com/company/aramco-expats.[66]

adaptability screening
A process that aims to assess the assignees' (and spouses') probable success in handling a foreign transfer.

ADAPTABILITY SCREENING Similarly, **adaptability screening** should be part of the screening process. Employers often use psychologists for this. Adaptability screening aims to assess the assignee's (and spouse's) probable success in handling the foreign transfer, and to alert them to issues (such as the impact on children) the move may involve. Here, companies often look for overseas candidates whose work and nonwork experience, education, and language skills already demonstrate living and working with different cultures. Even several summers traveling overseas or in foreign study programs can provide some basis to believe the candidate can adjust abroad.

TESTING Selection testing is useful for expat selection. In terms of personality, sociable, outgoing, conscientious people seem more likely to fit into new cultural settings.[67] Employers have used the Overseas Assignment Inventory (OAI) for many years to help assess, select, and develop expatriates for assignments abroad. The OAI is an online assessment that measures attributes crucial for successful adaptation to another culture.[68] As another example, expat success also requires an "international mindset." Employers sometimes measure this with the "Global Mindset Inventory." Sample questions include "Knows how to work well with people from different parts of the world?" And "Enjoys exploring different parts of the world?"[69]

JOB BOARDS ABROAD Although a few U.S.-based job boards (like Indeed) are global, most countries have their own major job boards. For instance, there is www.51job.com in China, and www.careerone.com.au in Australia and New Zealand.[70]

LEGAL ISSUES There are numerous legal considerations when hiring for assignments abroad. For example, as we explained in Chapter 2 (Equal Opportunity), American equal employment opportunity laws, including Title VII, the ADEA, and the ADA, do affect qualified employees of U.S. employers doing business abroad, and foreign firms doing business in the United States or its territories. If equal employment opportunity laws conflict with the laws of the country in which the U.S. employer is operating, the laws of the local country generally take precedence.[71]

DIVERSITY COUNTS

Sending Women Managers Abroad

While women represent about half of the middle managers in U.S. companies, they represent only about 20% of managers sent abroad.[72] That's up from about 15% in 2005, but still low.[73] What accounts for this?

For one thing, unconscious bias and misperceptions abound.[74] Many managers still erroneously assume that women don't want to work abroad or that those available are unqualified. A survey of female expatriates actually found enthusiasm for working abroad. Why did they take their assignments? "Career development" was number one. Other reasons they listed included "cultural understanding," "gaining experience," "doing something different," "personal goals," and "development learning."[75] In any case, it is advisable for the employer to address the reasons for any disparity in the number of women they send abroad.[76] Studies suggest that by multiple criteria female expats are as or more successful than their male peers.[77]

Fear of cultural prejudices against women is another issue. In some cultures, women do have to follow different rules, for instance, in terms of attire. But as one expat said, "Even in the more harsh cultures, once they recognize that the women can do the job . . . it becomes less of a problem."[78] Safety is another concern. Employers tend to assume that women abroad are more likely to become crime victims. However, most surveyed women expats said that safety was no more an issue with women than it was with men.[79]

Employers can take several steps to identify more women to assign abroad. For example, *formalize a process* for identifying employees who are willing to take assignments abroad. *Train managers* to understand how their employees really feel about going abroad. Let successful female expats *help recruit* prospective female expats. And provide the expat's spouse with *employment assistance*.[80] ■

Avoiding Early Expatriate Returns

As a rule, "expatriates typically experience a gradual increase in work adjustment over time."[81] However, many expat assignments do fail, which usually means an early unplanned return. One study found expatriate failure rates of up to 16%–40%.[82] Determining why the foreign assignment of a technically qualified expat failed is a cottage industry, but two factors loom large—the expat's personality, and family pressures.

As noted, a big part of the problem is how they're chosen in the first place. The tendency is to choose expats for their technical expertise and successful work achievements, but going abroad requires other talents (including adaptability). For example, as noted, sociable, outgoing, conscientious people seem more likely to fit into new cultural settings.[83] Studies also suggest that it's not how different culturally the host country is from the person's home country that causes problems; it's the person's cross-cultural awareness and ability to adapt.[84] Some people are so culturally at ease that they do fine anywhere; others will fail anywhere.[85] Careful selection is therefore in order.

Violations of what the expatriate sees as his or her psychological contract with the employer (the unwritten expectations governing the person's position abroad) may add to expatriate failure (as in, "I thought I'd get promoted back to headquarters in two years").[86] Similarly, expatriates who are more satisfied with their jobs abroad are more likely to adapt to being there.[87] Therefore, realistic previews and then monitoring and communicating with the expat are important.

FAMILY PRESSURES However, it is usually not technical or personality factors but family and personal ones that undermine international assignees. One solution here is to provide *realistic previews* of what to expect abroad (to prospective expat and spouse), careful *screening* (of both expat and spouse), and improved *orientation* (opportunities to discuss with recent returnees the challenges of the foreign posting, for instance). The expat should keep in mind that the assignment abroad will probably be more disconcerting for the family (in terms of culture shock, logistics, and isolation) than for the expat; the expat should therefore invest extra time in helping them cope with such problems.[88] Most expatriates and their families make use of medical care while abroad; their main concern usually won't be cost, but rather quality of health care.[89] Providing site-specific orientation and language training are also valuable.

HR Tools for Line Managers and Small Businesses: Some Practical Solutions to the Expatriate Challenge

Expat failure is expensive; managers can take several practical steps to improve the expat's success abroad.

- *Carefully select* expatriates, using expat-relevant criteria such as sociability and adaptability, rather than just technical skills.
- *Provide realistic previews* of what to expect abroad, *careful screening* (of both the prospective expat and his or her spouse), *improved orientation,* and *improved benefits* packages.
- *Shorten the length* of the assignment.
- *Form "global buddy"* programs. Here local managers assist new expatriates with advice on things such as office politics, norms of behavior, and where to receive emergency medical assistance.[90]
- *Use executive coaches* to mentor and work with expatriate managers.[91]
- Offer extensive *career opportunities* and support.[92]
- Actively *reach out* to determine how the expatriates are doing.[93]
- Find out *what their goals are*, and help them achieve them.[94]

LEARNING OBJECTIVE 17-4

Discuss some important issues to keep in mind in training, appraising, and compensating international employees.

Training and Maintaining Employees Abroad

Orienting and Training Employees on International Assignment

When it comes to the orientation and training required for expatriate success, the practices of some U.S. employers reflect more talk than substance. International assignees do best when they receive the special training (in things like language and culture) that they require. Few provide it.[95]

Most employers do offer some logistical and cultural support.[96] The former includes things like finding housing and schools, and arranging international health insurance. *Cultural support* aims to avoid the shock of discovering that local values and ways of doing things (like negotiating) are different from one's own. Language training is also addressed here.

Unfortunately, says one training expert, most employers do not provide support in helping expatriates build relationships with the locals they'll be dealing with.[97] This is important, because when adjusting to new locales, it helps to have people there with whom you already have some rapport. Employer support here would include, for instance, putting the expatriate in contact with home country managers who know the target location, so they can act as mentors and help build connections. Also encourage soon-to-be expatriates to ask, "Who do I know who has travelled or lived in this country?" And, "Do any of my friends or people I know have experience with or friends from this country?"[98]

Many vendors offer packaged predeparture training. In general, the programs use on- and offline lectures, simulations, videos, and readings to prepare trainees. One program aims to provide the trainee with (1) the basics of the new country's history, politics, business norms, education system, and demographics; (2) an understanding of how cultural values affect perceptions, values, and communications; and (3) examples of why moving to a new country can be difficult, and how to manage these challenges.[99] Other programs aim to build cross-cultural understanding, cross-cultural relationships and trust, and one's ability to communicate across cultures.[100] Global LT's "Living and Working Successfully" courses (https://global-lt.com/) "allow expatriate individuals and their families to gain a comprehensive understanding of the culture and business practices of their destination country. This course will help assignees more readily adjust to the work style and culture of an international assignment destination."[101]

Some employers use returning managers to mentor those departing. For example, Bosch holds regular seminars, where newly arrived returnees pass on their experience to managers and their families going abroad.

ONGOING TRAINING Beyond such predeparture training, many firms provide continuing in-country cross-cultural and other training, particularly during the early stages of an overseas assignment.

For example, managers abroad (both expats and locals) continue to need traditional skills-oriented development. At many firms, this includes rotating assignments, which help overseas managers grow professionally. IBM and other firms also have management development centers around the world. Here executives can hone their skills. And classroom programs (such as those at the London Business School or at INSEAD in France) provide overseas executives the educational opportunities (to acquire MBAs, for instance) that stateside colleagues have. PepsiCo encourages expatriates to engage in local social activities, such as table tennis tournaments in China, to help them become acclimated faster to local cultures.[102] Starbucks brings new management trainees from abroad to its Seattle, Washington, headquarters. This gives them "a taste of the West Coast lifestyle and the company's informal culture," as well as the technical knowledge required to manage their local stores.[103]

International development activities can have other, less-tangible benefits. For example, rotating their assignments helps managers form bonds with colleagues around the world. These can help them form the informal networks required to make cross-border decisions more expeditiously.

Ethics and Codes of Conduct

Employers want to make sure their employees abroad are adhering to the firm's ethics codes. However simply exporting a version of the company's employee handbook containing the code of conduct is rarely sufficient. For one thing (as explained in Chapter 14,) a code without very evident top management commitment will have little effect; for another, there may be ethics policies to add that are unique to working abroad.

Often, the employer's main concern is establishing global standards for adhering to U.S. laws that have cross-border impacts. For example, IBM paid $10 million to settle accusations that it had bribed Chinese and South Korean officials to get $54 million in government contracts.[104] Global employers need global codes of conduct on things like discrimination, harassment, bribery, and Sarbanes–Oxley.

Performance Appraisal of International Managers

Several things complicate appraising an expatriate's performance.[105] Cultural differences are one. For example, a candid exchange is often the norm in France, but sometimes less so in Japan, where "face" is a concern. Furthermore, the "cultural distance" in terms of values and ways of doing things is much wider between some countries (such as between Japan and South Africa) than others (such as between the United States and England). Such cultural differences can cloud how managers from one country see the actions of those from another country. This is particularly so with the "360-degree" feedback one gets from peers and subordinates. Therefore, particularly for expatriate employees, "peer and subordinate ratings should be used for feedback related to development, and only supervisor ratings should be used to make HR administrative decisions such as performance appraisal and merit pay."[106]

Furthermore, who does the appraisal? Local managers must have some input, but, again, cultural differences may distort the appraisals. On the other hand, home-office managers may be so out of touch that they can't provide useful input. The sensible alternative is probably to let both have some input, but most companies probably emphasize the local manager's opinion. Some suggestions for improving the expatriate appraisal process include the following:

1. Adapt the performance criteria to the local job and situation.
2. Weigh the evaluation more toward the on-site manager's appraisal than toward the home-site manager's.
3. If the home-office manager does the appraisal, have him or her consult a former expatriate from the same location abroad for advice.

Many global employers bring their international managers together periodically for training seminars.

Blue Planet Studio/Shutterstock

Compensating Managers Abroad

As discussed in Chapter 11 (Strategic Pay Plans), the usual way to formulate expatriate pay is to maintain the manager's purchasing power and standard of living based on what the manager would be earning at home, a technique known as the *balance sheet approach.*[107] In contrast, a *localization* compensation policy would pay the expat a salary comparable to what a local person would earn, but supplement that with payments to let the expat maintain his or her home-country standard of living.[108]

In practice, the more popular balance sheet approach usually boils down to building the expatriate's total compensation based on his or her home-based salary, and then adapting what the person receives based on five or six other major expenditure components. Table 17-1 illustrates the balance sheet approach. In this case, the manager's annual earnings are $160,000, and she faces a U.S. income tax rate of 28%. (Multiple-nation taxation can be a problem. Respondents often list "tax compliance" as the top challenge in sending employees abroad.)[109] Other costs are based on the index of living costs abroad published in the "U.S. Department of State Indexes of Living Costs Abroad, Quarters Allowances, and Hardship Differentials," available via the www.state.gov website.[110]

To help the expatriate manage his or her home and foreign financial obligations, most employers also use a *split pay* approach; they pay, say, half a person's actual pay in home-country currency and half in the local currency.[111] For compensating *host country* nationals, employers tend to use a similar process to what they use at home,

TABLE 17-1 The Balance Sheet Approach (Assumes U.S. Base Salary of $160,000)

Annual Expense	Home Assignment, Chicago, U.S.	Shanghai, China (US $ Equivalent)	Allowance
Housing and utilities	$35,000	$ 44,800	$ 9,800
Goods and services	6,000	7,680	1,680
Taxes	44,800	57,344	12,544
Discretionary income	10,000	12,800	2,800
Total	$95,800	$122,624	$26,824

namely methods like job grading to create equitable pay plans adjusted for local market conditions.[112]

Determining pay rates abroad isn't easy. Although there is a wealth of compensation survey data available in the United States, such data are not as easy to come by overseas. Some multinationals therefore conduct their own local annual compensation surveys. For example, Kraft has conducted one of total compensation in Europe. However, most employers abroad do probably purchase one or more of various international salary surveys such as the Call Centre Remuneration Report/Australia, from Aon Hewitt, or the International Salary Survey Database/United Arab Emirates, from Executive Resources Limited.[113]

EXPATRIATE PAY EXAMPLE As one expat pay example, those working for the company CEMEX (a multinational building supplies company)

> . . . get foreign service premium equal to a 10% increase in salary. Some get a hardship premium, depending on the country; it ranges from zero in a relatively comfortable posting to, for example, 30% in Bangladesh. We pay for their housing. We pay for their children's schooling up to college. There's home leave—a ticket back to their home country for the entire family once a year. There are language lessons for the spouse. And we gross up the pay of all expats, to take out the potential effects of local tax law. Say you have an executive earning $150,000. This person would cost close to $300,000 as an ex-pat.[114]

TRANSFER INCENTIVES Employers use incentives to encourage the employee to take the job abroad.[115] For example, **foreign service premiums** are financial payments over and above regular base pay. These typically range from 10% to 30% of base pay, and appear as weekly or monthly salary supplements. **Hardship allowances** compensate expatriates for challenging living and working conditions at certain foreign locations. (U.S. diplomats posted to Kabul, Afghanistan, recently received about a 35% boost in base salary, among other incentives.)[116] **Mobility premiums** are typically lump-sum payments to reward employees for moving from one assignment to another.

foreign service premiums
Financial payments over and above regular base pay, typically ranging between 10% and 30% of base pay.

hardship allowances
Payments that compensate expatriates for exceptionally hard living and working conditions at certain locations.

mobility premiums
Typically, lump-sum payments to reward employees for moving from one assignment to another.

STEPS IN ESTABLISHING A GLOBAL PAY SYSTEM Balancing (1) the need for global compensation consistency with (2) local needs starts with establishing a rewards program that makes sense in terms of the employer's strategic goals.[117] Then the employer turns to more micro issues, such as, is how we're paying our employees abroad competitive?[118] Steps to follow in creating a global pay system include these:[119]

- First, formulate **strategic goals**, for instance, in terms of improving productivity or boosting market share.
- Next, list the **actions** you expect your executives to take in order to achieve these strategic goals.
- Third, determine how you want **each pay component** (salary, bonus, incentives, and so forth) to contribute to prompting those executive actions.
- Next, ask, "To what extent do our pay plans around the world now **support these actions**, and what changes if any are required?"
- Next, review and **make more consistent** your performance appraisal practices, job requirements, and performance expectations for similar jobs worldwide.
- Finally, review your global pay policies (for example, for how you set salary levels, and so forth). Conduct surveys and analyses to assess local pay practices. Then **fine-tune and localize** your global pay policies so they make sense for each location.

Union Relations Abroad

A manager flying either East or West from the United States would most likely land in a country with a much stronger union movement than in the United States. For example, Walmart successfully neutralized unionization attempts in the United States, but had to accept them in China. And collective bargaining in Western Europe tends to be industry-wide, whereas in the United States it generally takes place at the company

or plant level. Furthermore, union recognition in Europe is less restrictive than in the United States. For example, even if one union represents 80% of an employer's workers, another union in Europe can try to organize the other 20%. The bottom line, as noted earlier, is that managers should steel themselves to more vigorous collective bargaining negotiations abroad than they may be used to in the United States.

Safety Abroad

Employers need to address at least two matters in developing their international safety policies and practices. First is *local worker safety*. For instance, at a plant that manufactures iPhone casings near Shanghai, China, workers reportedly were using noxious chemicals, sometimes without proper personal protective equipment.[120] The United States has often taken the lead in occupational safety. However, many other countries also have such laws, and all employers should comply with them. (And, in fact, the strength of local OSH regulations do have a big influence on multinationals' local safely activities.)[121] In any case, it's hard to make a case for being less safety conscious with workers abroad than you are with those at home.

The second matter is protecting their own *international assignees and international travelers*. (Legally, employers have a duty of care for protecting international assignees and their dependents and international business travelers.)[122] For example, the threat of terrorism prompted more employers to use special mobile safety tools to track and communicate with workers in real time.[123] Security firm International SOS provides its clients with online and smartphone tools. These let the client quickly notify employees traveling abroad of potential problems and what to do about them. Many employers use intelligence services for monitoring potential terrorist threats abroad.[124] Some employers retain crisis management teams' services. They then call on these teams, for instance, when criminals kidnap one of their managers.

Hiring crisis teams and paying ransoms can be prohibitively expensive for all but the largest firms, so many employers buy kidnapping and ransom (K&R) insurance. Various events may trigger payments under such policies, including kidnapping/hostage situations, extortion, and detention.

Business Travel

Keeping business travelers safe is a specialty all its own, but suggestions here include[125]

- Provide expatriates with training about the place they're going to, so they're more oriented.
- Tell them not to draw attention to the fact they're Americans—by wearing T-shirts with American names, for instance.
- Have travelers arrive at airports as close to departure time as possible and wait in areas away from the main flow of traffic.
- Equip the expatriate's car and home with security systems.
- Tell employees to vary their departure and arrival times and take different routes.
- Keep employees current on crime and other problems by regularly checking, for example, the State Department's travel advisories and warnings at http://travel.state.gov.[126] Click on "Travel Alerts" and "Country Information."
- Advise employees to act confident at all times. Body language can attract perpetrators, and those who look like victims often become victimized.[127]

Increased terrorism worldwide is causing more employers to use special travel safety tools to track and communicate with workers in real time.[128] For example, as noted, International SOS provides its clients with online and smartphone tools.

Repatriation: Problems and Solutions

Too many employers waste the investment they've made in the people they've sent abroad. For one thing, as we summarized in Table 17-1, a three-year assignment abroad for an employee with a salary of about $160,000 may cost the employer $800,000 or more, once extra living costs and taxes, (plus transportation and the person's regular benefits) are added up. Furthermore, losing the returnee also means losing the

knowledge and experience that person gained abroad.[129] One survey several years ago found some employers lost 30% or more of their returning expats (although the attrition rates for most employers were much lower).[130]

Given the investment, it obviously makes sense to keep such employees with the firm. Formal repatriation programs are useful. For instance, one survey found that of the employers with excessive expat returnee attrition rates, about two-thirds had no formal repatriation plans in place.[131] About a quarter of employers don't even know if their recently returned expatriates quit within 12 months of returning.[132] On the bright side, while many expats do return to deflating welcomes, expatriation's long-term effect on one's career is usually quite positive.[133]

STEPS IN REPATRIATION Successful repatriation programs have several characteristics. The best begin before the person is even sent abroad, by making sure they know that the position is an integral part of a sensible career plan.[134] Discussions about the return should begin 6–12 or more months before the actual repatriation, and include discussions of the person's next career moves.[135] It is essential that the expatriate and his or her family not feel that the company has forgotten them.

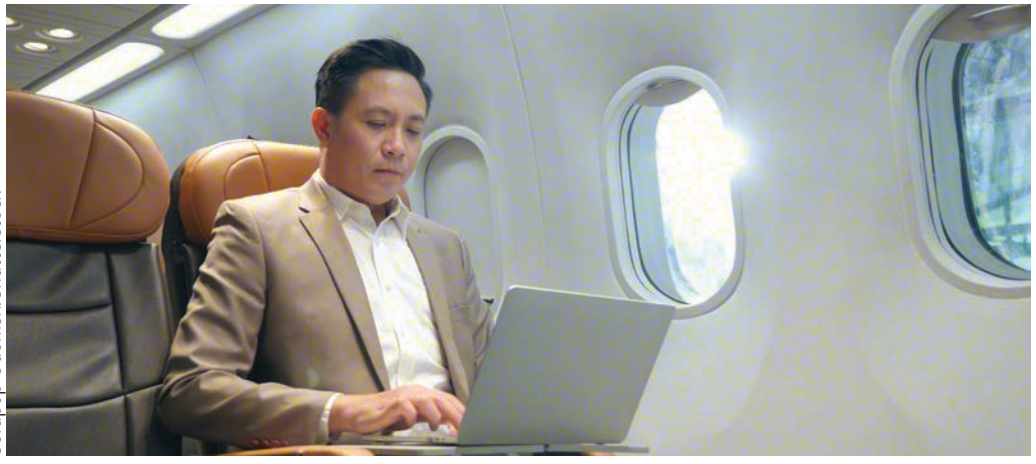
As an example, one firm has a three-part repatriation program.[136]

First, the firm matches the expat and his or her family with a psychologist trained in repatriation issues. The psychologist meets with the family before they go abroad. The psychologist discusses the challenges they will face abroad, assesses with them how well they think they will adapt to their new culture, and stays in touch with them throughout their assignment.

Second, the program ensures that the employee always feels "in the home-office loop." For example, the expat gets a mentor and frequent Zoom meetings, and travels back to the home office periodically for in-person meetings.

Third, once it's time for the expat employee and his or her family to return home, there's a formal repatriation service. About six months before the overseas assignment ends, the psychologist and an HR representative meet with the expat and the family to start preparing them for return. For example, they help plan the employee's next career move, help the person update his or her résumé, and begin putting the person in contact with supervisors back home.[137]

At the end of the day, probably the simplest thing employers can do to retain the returnee is value his or her experience. As one returnee put it: "My company was, in my view, somewhat indifferent to my experience in China as evidenced by a lack of monetary reward, positive increase, or leverage to my career in any way." Such feelings prompt former expats to look elsewhere.[138] Having a system that facilitates keeping track of employees as they move from position to position in a global organization is essential. One reason for returnees' high attrition rates is that employers simply lose track of their returnees' new skills and competencies.[139]



Sorapop Udomsri/Shutterstock

It is prudent to make sure that the employee always feels "in the loop" with what's happening back at the home office.

LEARNING OBJECTIVE 17-5

Discuss similarities and differences in employee engagement around the globe.

Employee Engagement Guide for Managers

Engagement around the Globe

A survey of employee engagement around the globe provides some useful observations.[140]

On average, the percent of engaged employees (including highly engaged and moderately engaged) was 70% in Latin America, 65% in North America, 61% in Asia/Pacific and Africa/Middle East, and 57% in Europe. The percentage of actively disengaged employees was highest in Europe (19%), lowest in Latin America (12%), and 15%–16% in North America, Asia/Pacific, and Africa/Middle East. The trend was for employee engagement (highly and moderately engaged) in all regions of the world to be converging around the current global average of about 61% of employees engaged. So, workers everywhere are becoming about equally engaged.

What are the top drivers of employee engagement around the globe? *Career opportunities* was the number-one key driver of employee engagement in all regions of the world, underscoring the universal importance of providing such opportunities. But beyond that point of agreement, the other key drivers varied by geographic area. For example, setting goals/managing performance was the number two key driver of employee engagement in North America but was much less important in Europe; the reputation of the organization was number two in Europe, pay was number two in Asia/Pacific, and recognition was number two in Latin America. So, the management actions that drive engagement vary somewhat by region.

One thing that did not seem to vary much was the global importance of employee engagement. The best-performing companies' employees were in the top quartile in employee engagement.

LEARNING OBJECTIVE 17-6

Explain with examples how to implement a global human resource management program.

Managing HR Locally: How to Put into Practice a Global HR System

Being global confronts the employer with three options regarding how it manages HR globally: whether to impose its home-based human resource management policies and practices basically unchanged worldwide; or let subsidiaries abroad devise their own systems; or choose some hybrid approach.

Factors That Influence How Standardized the Global HR System Will Be

In practice, many factors influence how standardized a company's global HR system will be.[141] One study focused on 472 multinational enterprises in 22 countries. Several factors including the multinational's home country culture, legal/political system, and economic system all affected the appraisal systems they installed locally.[142] In another study, Japanese multinationals were more ethnocentric (Japan oriented) in applying their personnel policies abroad then were Anglo-Saxon or Germanic multinationals.[143] They were also less likely than American ones to use performance-related pay.[144] Other factors influencing to what extent multinationals transferred their HR practices abroad included the subsidiary's pre-acquisition economic health, and the parent company's international experience.[145] Weak institutions locally, combined with a technologically and economically sophisticated home country parent, will likely produce a more home country-based local HR system.[146]

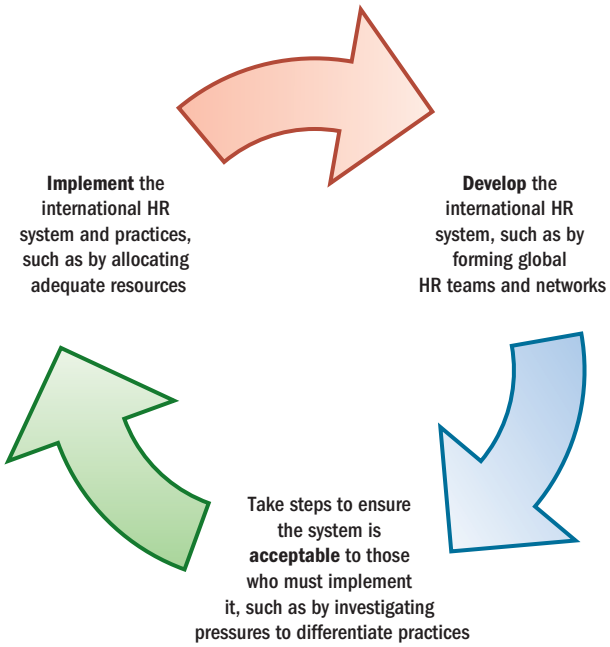
Technology—and particularly cloud computing—plays a major role in how employers manage their global HR functions.[147] Products such as Oracle's Human Capital Management Cloud provide employers with global, comprehensive human resource management systems.[148] BP adopted the cloud-based "Workday HCM" (Human Capital Management) to support BP's global HR modernization strategy.[149] Doing so enabled BP to standardize its HR processes around the world, and gave employees worldwide access to information such as their benefit status. It also provides top management with better insights into worldwide staffing levels and employee performance. And, it enabled BP's human resource management staff to transition from doing administrative HR tasks to better supporting BP's strategic initiatives. Today such cloud systems also facilitate remote working.[150]

Not surprisingly, the parent company usually has more influence on whether and what to localize than does the subsidiary.[151] But at the end of the day, *hybridization* is probably the most sensible approach. This involves merging " . . . home country policies with locally responsive HRM practices. . . . "[152]

The question of course is, "How do we actually create a hybrid system that effectively merges home country policies with locally responsive HRM practices?" A study conducted a number of years ago sheds light on this. In brief, the study's results show that employers may have to defer to local managers for fine-tuning human resource management policies.

In this study, the researchers interviewed human resource personnel from six global companies—Agilent, Dow, IBM, Motorola, Procter & Gamble, and Shell Oil Co.—as well as international human resources consultants.[153] The study's overall conclusion was that employers who successfully implement global HR systems do so by applying several best practices. The basic idea is to *develop* systems that are *acceptable* to employees in units around the world, and ones that the employers can *implement* more effectively. Figure 17-2 summarizes this.

FIGURE 17-2 Best Practices for Creating Global HR Systems



Developing a More Effective Global HR System

First, these employers engage in two best practices in *developing* their worldwide human resource policies and practices.

Form global HR networks. To head off resistance, human resource managers around the world should feel part of the firm's global human resource management team. Treat the local human resource managers as equal partners. For instance, form global teams to develop the new human resources system. Create "an infrastructure of partners around the world that you use for support, for buy-in, for organization of local activities, and to help you better understand their own systems and their own challenges."[154]

Remember that it's more important to standardize ends and competencies than specific methods. For example, IBM uses a basically standardized recruitment and selection process worldwide. However, "details such as who conducts the interview (hiring manager vs. recruiter), or whether the prescreen is by phone or in person, differ by country."[155]

Making the Global HR System More Acceptable

Next, employers engage in three best practices so that the global human resource practices they put in place will be *acceptable* to local managers around the world. These practices are:

Take the actions that a truly global company would. For example, their managers work on global teams, and they identify, recruit, and place employees globally. As one Shell manager said, "If you're truly global, then you are hiring here [the United States] people who are going to immediately go and work in the Hague, and vice versa."[156] Doing so makes it easier for managers everywhere to accept the wisdom of having a standardized human resource management system.

Investigate pressures to differentiate and determine their legitimacy. Local managers will insist, "You can't do that here, because we are different culturally." These "differences" aren't usually persuasive. For example, when Dow wanted to implement an online recruitment and selection tool abroad, the hiring managers there said that their managers would not use it. After investigating the supposed cultural roadblocks, Dow successfully implemented the new system.[157]

However, first carefully assess whether the local culture or other differences might in fact undermine the new system. Be knowledgeable about local legal issues, and be willing to differentiate where necessary.

Try to work within the context of a strong corporate culture. Companies that do so find it easier to obtain agreement among far-flung employees. For example, because of how P&G recruits, selects, trains, and rewards them, its managers have a strong sense of shared values. For instance, new recruits quickly learn to think in terms of "we" instead of "I." They learn to value thoroughness, consistency, self-discipline, and a methodical approach. Having such global unanimity makes it easier to implement standardized human resource practices.

Implementing the Global HR System

Finally, two best practices helped ensure success in actually *implementing* the globally consistent human resource policies and practices.

Communicate constantly. "There's a need for constant contact with the decision makers in each country, as well as the people who will be implementing and using the system."[158]

Dedicate adequate resources. For example, don't require the local human resource management offices to implement new job analysis procedures unless the head office provides adequate resources for these additional activities.

CHAPTER 17

Chapter Review

Chapter Section Summaries

17-1. Dealing with **global human resource challenges as a manager** isn't easy. The employer faces an array of political, social, legal, and cultural differences among countries abroad. What works in one country may not work in another.

17-2. **The need for adapting human resource activities to intercountry differences** influences employers' HR processes. For example, citizens of different countries adhere to different values, and countries have differing economic systems as well as different legal, political, and labor relations systems.

17-3. **Staffing the global organization** is a major challenge. Companies may use expatriates, home-country nationals, locals, or third-country nationals. Ethnocentric companies tend to emphasize home-country attitudes, polycentric companies focus more on host-country employees, and global employers try to pick the best candidates from wherever they might be. Selecting employees to

successfully work abroad depends on several things, most importantly on adaptability screening and on making sure that each employee's spouse and family get the realistic previews and support necessary to make the transition.

17-4. After selecting the employees to send abroad, attention turns to **training and maintaining your expatriate employees.**

In terms of predeparture preparation, training efforts ideally first cover the impact of cultural differences; then, the focus moves to getting participants to understand how attitudes influence behavior, providing factual knowledge about the target country, and developing skills in areas like language and adjustment.

In compensating expatriates, most employers use the balance sheet approach; this focuses on four groups of expenses: income taxes, housing, goods and services, and discretionary expenses, and aims to ensure that the employee's standard of living abroad is about what it would have been at home.

With terrorism a threat, most employers today take protective measures, including buying kidnapping and ransom insurance.

Well-thought-out repatriation programs emphasize keeping employees in the loop as far as what's happening in their home offices, bringing them back to the office periodically, and providing formal repatriation services for the expatriate and his or her family to start preparing them for the return.

17-5. The worldwide trend is for employee engagement to converge around the current global average of about 61% of **employees engaged**. Career opportunities was the number-one key driver of employee engagement in all regions of the world, underscoring its universal importance.

17-6. With employers increasingly relying on local rather than expatriate employees, it's important for managers to understand **how to implement a global HR system.** The basic approach involves: (1) Develop a more effective global HR system; (2) Make the global HR system more acceptable; and (3) Implement the global system.

Discussion Questions

17-1. You are the president of a small business. What are some of the ways you expect "going international" will affect HR activities in your business?

17-2. What are some of the specific, uniquely international activities an international HR manager typically engages in?

17-3. What intercountry differences affect HRM? Give several examples of how each may affect HRM.

17-4. You are the HR manager of a firm that is about to send its first employees overseas to staff a new subsidiary. Your boss, the president, asks you why such assignments often fail, and what you plan to do to avoid such failures. How do you respond?

17-5. As an HR manager, what program would you establish to reduce repatriation problems of returning expatriates and their families?

Individual and Group Activities

17-6. Working individually or in groups, outline an expatriation and repatriation plan for your professor, whom your school is sending to Bulgaria to teach HR for the next 3 years.

17-7. Give three specific examples of multinational corporations in your area. Check on the Internet or with each firm to determine in what countries these firms have operations. Explain the nature of some of their operations, and summarize whatever you can find out about their international employee selection and training HR policies.

17-8. Choose three traits useful for selecting international assignees, and create a straightforward test to screen candidates for these traits.

17-9. Use a library or Internet source to determine the relative cost of living in five countries as of this year, and explain the implications of such differences for drafting a pay plan for managers being sent to each country.

17-10. The HRCI *Exam Content Outline* website https://www.hrci.org/docs/default-source/web-files/phr-exam-content-outline.pdf?sfvrsn=13c44f61_28 lists the knowledge someone studying for the HRCI PHR certification exam needs to have in each area of human resource management (such as in Business Management, and in Talent Planning and Acquisition.)[159] In groups of several students, do four things: (1) review the *Exam Content Outline* on that website; (2) identify the material in this chapter that relates to the Exam Content Outline's required "Knowledge Of" lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.

Experiential Exercise

A Taxing Problem for Expatriate Employees

Written and copyrighted by Gary Dessler, PhD.

Purpose: The purpose of this exercise is to give you practice identifying and analyzing some of the factors that influence expatriates' pay.

Required Understanding: You should be thoroughly familiar with this chapter and with the website www.irs.gov.

How to Set Up the Exercise/Instructions: Divide the class into teams of four or five students. Each team member should read the following: One of the trickiest aspects of calculating expatriates' pay relates to the question of the expatriate's U.S. federal income tax liabilities. Go to the Internal Revenue Service's websites, https://www.irs.gov/individuals/international-taxpayers; also, https://www.irs.gov/individuals/international-taxpayers/frequently-asked-questions-about-international-individual-tax-matters. Your team is the expatriate-employee compensation task force for your company, and your firm is about to send several managers and engineers to, say, Japan, England, and Thailand. What information did you find on the site that will help your team formulate expat tax and compensation policies? Based on that, what are three important things your firm should keep in mind in formulating a compensation policy for employees you're about to send abroad?

Application Case

"Boss, I Think We Have a Problem"

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Central Steel Door Corporation has been in business for about 20 years, successfully selling a line of steel industrial-grade doors. The company had gradually increased its presence from the New York City area, first into New England and then down the Atlantic Coast, then through the Midwest and West, and finally into Canada. The company's basic expansion strategy was always the same: Choose an area, open a distribution center, hire a regional sales manager, and then let that regional sales manager help staff the distribution center and hire local sales reps.

Unfortunately, the company's traditional success in finding sales help did not extend to its European operations, when Mel Fisher, president of Central Steel Door, decided to expand his company into Europe. He tried for 3 weeks to find a sales manager by advertising in the *International New York Times*, which is read by businesspeople in Europe and by American expatriates living and working in Europe. Although the ads placed in the *Times* also ran for about a month on the *Times*'s website, Mr. Fisher so far has received only five applications. One came from a possibly viable candidate, whereas four came from candidates whom Mr. Fisher refers to as "lost expatriates"—people who seem to have spent most of their time traveling aimlessly from country to country, without having found jobs. When asked what he had done for the last 3 years, one told Mr. Fisher he'd been on a "walkabout."

Other aspects of his international HR activities have been equally problematic. Fisher alienated two of his U.S. sales managers by sending them to Europe to temporarily run the European operations, but neglecting to work out a compensation package that would cover their relatively high living expenses in Germany and Belgium. One ended up staying the better part of the year, and Mr. Fisher was rudely surprised to be informed by the Belgian government that his sales manager owed thousands of dollars in local taxes. The two managers had hired about 10 local people to staff each of the two distribution centers. However, the level of sales was disappointing, so Fisher decided to fire about half the distribution center employees. That's when he got an emergency phone call from his temporary sales manager in Germany: "I've just been told that all these employees should have had written employment agreements and that in any case we can't fire anyone without at least one year's notice, and the local authorities here are really up in arms. Boss, I think we have a problem."

Questions

17-11. Based on this chapter and the case incident, compile a list of 10 international HR mistakes Mr. Fisher has made so far.

17-12. How would you have gone about hiring a European sales manager? Why?

17-13. What would you do now if you were Mr. Fisher?

Continuing Case

Carter Cleaning Company

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Going Abroad

Jack Carter decided to take his first long vacation in years and go to Mexico for a month a few years ago. What he found surprised him: He spent time in Mexico City and was surprised at the dearth of cleaning stores, particularly considering the amount of air pollution. Traveling north, he passed through Juarez, Mexico, and was similarly surprised at the relatively few cleaning stores he found there. As he drove back into Texas, and back toward home, he began to think about whether it would be advisable to consider expanding his chain of stores into Mexico.

Aside from the possible economic benefits, he liked what he saw in Mexico. Starting a new business again also appealed to him. "I guess entrepreneurship is in my blood," is the way he put it.

As he drove home to have dinner with Jennifer, he began to formulate the questions he would have to ask before deciding whether to expand abroad.

Questions

17-14. Assuming they began by opening just one or two stores in Mexico, what do you see as the main HR-related challenges Jack and Jennifer would have to address?

17-15. How would you go about choosing a manager for a new Mexican store if you were Jack or Jennifer? For instance, would you hire someone locally or send someone from one of your existing stores? Why?

17-16. The cost of living in Mexico is substantially below that of where Carter is now located: How would you go about developing a pay plan for your new manager if you decided to send an expatriate to Mexico?

17-17. Present a detailed explanation of the factors you would look for in your candidate for expatriate manager to run the stores in Mexico.

Translating Strategy into HR Policies and Practices Case*,§

**The overall strategy map on the inside back cover of this text outlines the relationships involved.*

Improving Performance at the Hotel Paris

Managing Global Human Resources

The Hotel Paris's competitive strategy is, "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy and boost performance by eliciting the required employee behaviors and competencies.

With hotels in 11 cities in Europe and the United States, Lisa knew that the company had to do a better job of managing its global human resources. For example, there were no formal means of identifying or training management employees for duties abroad (for those going either to the United States or to Europe). As another example, after spending upward of $200,000 sending a U.S. manager and his family abroad, they had to return him abruptly when his family complained of missing their friends and relatives back home. Lisa knew this was no way to run a multinational business. She turned her attention to developing the HR practices her company required to do business more effectively internationally.

On reviewing the data, it was apparent to Lisa and the CFO that the company's global human resource practices were probably inhibiting the Hotel Paris from being the world-class guest services company that it sought to be. For example, high-performing service and hotel firms had formal departure training programs for at least 90% of the employees they sent abroad; the Hotel Paris had no such programs. Similarly, with each city's hotel operating its own local hotel HR information system, there was no easy way for Lisa, the CFO, or the company's CEO to obtain reports on metrics like turnover, absences, or workers' compensation costs across all the different hotels. As the CFO summed it up, "If we can't measure how each hotel is doing in terms of human resource metrics like these, there's really no way to manage these activities, so there's no telling how much lost profits and wasted efforts are dragging down each hotel's performance." Lisa received approval to institute new global human resources programs and practices.

In instituting these new programs and practices, Lisa had several goals in mind. She wanted an integrated human resource information system (HRIS) that allowed her and the company's top managers to monitor and assess, on an ongoing basis, the company's global performance on strategically required employee competencies and behaviors such as attendance, morale, commitment, and service-oriented behavior. To address this need, she received approval to contract with a company that integrated, via the cloud, the separate hotels' HR systems, including human resource and benefits administration, applicant tracking and résumé scanning, and employee morale surveys and performance appraisals.

She also contracted with an international HR training company to offer expatriate training for Hotel Paris employees and their families before they left for their foreign assignments, and to provide short-term support after they arrived. That training company also helped create a series of weeklong "Managers' Seminars." Held once every 6 months at a different hotel in a different city, these gave selected managers from throughout the Hotel Paris system an opportunity to meet and to learn more about the numerous new HR programs and practices that Lisa and her team had been instituting for the purpose of supporting the company's strategic aims. With the help of their compensation specialist, Lisa and her team also instituted a new incentive program for each of the company's local managers, to focus their attention more fully on the company's service-oriented strategic aims. By the end of the year, the Hotel Paris's performance on metrics such as percent of expatriates receiving predeparture screening, training, and counseling were at or above those of high-performing similar companies. She and the CFO believed, rightly, that they had begun to get their global HR system under control.

Questions

17-18. Provide a one-page summary of what individual hotel managers should know in order to make it more likely incoming employees from abroad will adapt to their new surroundings.

17-19. In previous chapters of Dessler, *Human Resource Management*, you recommended various human resource practices the Hotel Paris should use. Choose one of these, and explain why you believe they could take this program abroad, and how you suggest they do so.

17-20. Choose one Hotel Paris human resource practice that you believe is essential to the company for achieving its high-quality-service goal, and explain how you would implement that practice in the firm's various hotels worldwide.

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Writing Assignments

17-21. What special training do managers who you're sending abroad need? In what ways is such training similar to and different from traditional training?

17-22. Your boss wants you to transfer from headquarters in Columbus, Ohio, to the firm's Moscow, Russia, office. You're pretty sure you're suited to work abroad, but to be sure you decide to write a short essay based on what you learned in this chapter titled "Why I think I would be successful in an overseas assignment." What would you say in your essay?

Key Terms

international human resource management (IHRM), 553
works councils, 555
codetermination, 555
expatriates (expats), 557
parent or home-country nationals, 557
third-country nationals, 557
locals, 557
ethnocentric, 558
polycentric, 558
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virtual teams, 559
adaptability screening, 560
foreign service premiums, 565
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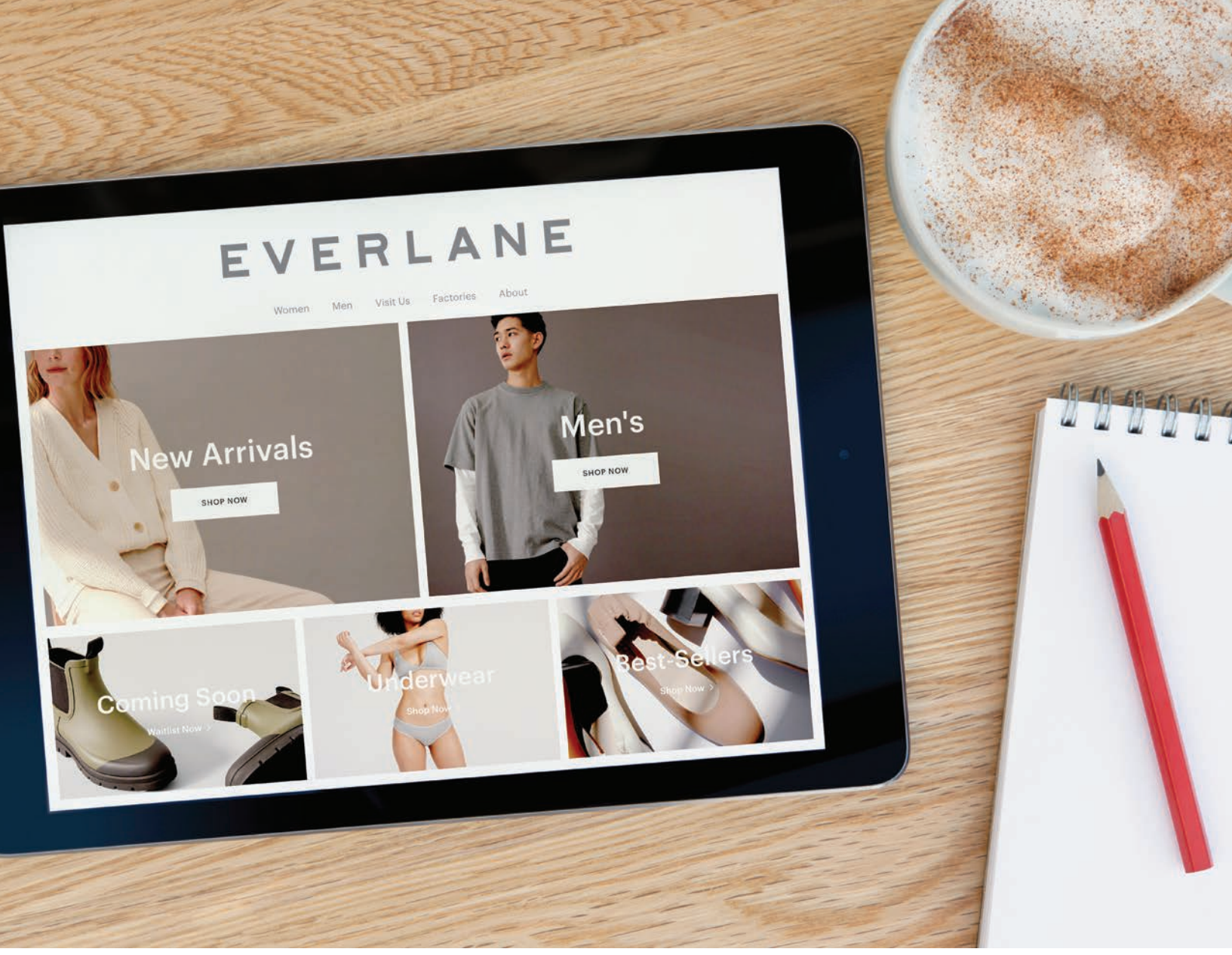

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18 Managing Human Resources in Small and Entrepreneurial Firms

WHERE ARE WE NOW . . .

Small businesses have special human resource management needs. The main purpose of this chapter is to help you apply what you know about human resource management to running a small business. The main topics we'll address include **The Small Business Challenge; Using Internet, Government, and Other Tools to Support the HR Effort; Leveraging Small Size with Familiarity, Flexibility, Fairness, and Informality; Using Professional Employer Organizations;** and **Managing HR Systems, Procedures, and Paperwork**.

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

18-1 **Explain** why HR is important to small businesses and how small business HR is different from that in large businesses.

18-2 **Give** four examples of how entrepreneurs can use Internet and government tools to support the HR effort.

18-3 **List** five ways entrepreneurs can use their small size to improve their HR processes.

18-4 **Discuss** how you would choose and deal with a Professional Employer Organization.

18-5 **Describe** how you would create a start-up human resource system for a new small business.

San Francisco-based Everlane's strategy is to build its apparel brand around ethical manufacturing and transparency.[1] For example their website shows photos of the factories abroad that make their clothes, they give voice to the factories' workers, and they list for every item its costs, so you can better judge its worth. A strategy like that requires recruitment, selection, and compensation practices that fit the strategy. We'll see what they did.

LEARNING OBJECTIVE 18-1

Explain why HR is important to small businesses and how small business HR is different from that in large businesses.

The Small Business Challenge

There's not much small about *small business*. Just over half the people working in the United States work for small firms.[2] Small businesses as a group also account for most of the 500,000 or so new businesses created every year,[3] as well as for most of the United States' business growth (small firms grow faster than big ones). And small firms create about two-thirds of the net new jobs created in the U.S. every year.[4]

Statistically speaking, therefore, many (or most) people graduating from college probably do or will work for small businesses—those with no more than several hundred employees.[5] Therefore anyone interested in managing should understand how managing HR in small firms differs from doing so in big ones.

How Small Business Human Resource Management Is Different

Managing human resources in small firms is different for four main reasons: *size, priorities, informality*, and the nature of the *entrepreneur*.

SIZE For one thing, it's unusual to find a business under 90 or so employees with a dedicated HR professional.[6] *As a rule*, it's not until a company reaches about 100 employees that it can afford an HR specialist. Yet even five- or six-person retail shops recruit, select, train, and pay employees. So, it's usually the owner or their assistants doing the HR tasks; the bookkeeper might handle payroll, for instance. As a result, SHRM found several years ago that even firms with under 100 employees often spend the equivalent of two or so people's time each year addressing human resource management issues.[7] Those hours usually come out of the owner's long workday. (About 10% of SHRM members work in firms with less than 100 employees.)[8]

PRIORITIES At the same time, business realities drive many entrepreneurs (the people who provide the vision and "spark" that starts a new business) to focus more on non-HR issues. After studying small e-commerce firms in the United Kingdom, one researcher concluded that, as important as human resource management is, it just wasn't a high priority for these firms:

> Given their shortage of resources in terms of time, money, people and expertise, a typical SME *[small- and medium-size enterprise]* manager's organizational imperatives are perceived elsewhere, in finance, production and marketing, with HR of diminished relative importance.[9]

INFORMALITY One effect of this is that human resource management tends to be more informal in small firms. A study analyzed training practices in about 900 family and nonfamily small companies.[10] Training tended to be informal, with an emphasis on methods like coworker and supervisory on-the-job training.

Such informality isn't just due to a lack of resources, it's a "matter of survival." Entrepreneurs must react fast to changing competitive conditions. So, there's logic in keeping things like compensation policies flexible. The need for small businesses to adapt quickly often means handling matters like raises, appraisals, and time off "on an informal, reactive basis with a short time horizon."[11]

THE ENTREPRENEUR *Entrepreneurs* are people who create businesses under risky conditions, and starting new businesses is always risky. Entrepreneurs therefore tend to be dedicated and visionary, and somewhat controlling. Researchers believe that small firms' informality partly stems from entrepreneurs' tendency to control things. For example, "Owners tend to want to impose their stamp and personal management style on internal matters, including the primary goal and orientation of the firm, its working conditions and policies, and the style of internal and external communication and how this is communicated to the staff."[12] The accompanying Diversity Counts feature expands on this.

IMPLICATIONS This combination of small size, priorities, informality, and entrepreneurial tendencies can translate into several human resource management problems for a small firm.[13]

- First, inadequate human resource practices may put small business owners at ***legal risk***. For example, Outback Steakhouse long had no human resource department. That changed after an EEOC suit led Outback to pay a $19 million sex discrimination settlement. They hired an executive-level HR professional. Entrepreneurial firms face similar legal risks for violating Family Medical Leave Act regulations, and not paying for overtime hours worked, to name a few.
- Second, not having a dedicated HR person can ***slow company decisions*** and ***overwhelm its managers***. After LRN Corp. eliminated its human resource department, tasks like hiring became convoluted as line managers tried to figure out what skills jobs required, and how to find and select the best people. Soon managers were pushing all these decisions up to the top manager. (However, few small businesses can afford a dedicated human resource professional until they have close to 100 employees.)
- Third, without human resource information systems, paperwork is ***time consuming***, and duplication may create ***data entry errors***. Employee data (name, address, marital status, and so on) often appears on multiple personnel forms (medical enrollment forms, W-4 forms, and so on). Any personal data change then requires manually changing all forms. This is inefficient, and causes errors.
- Fourth, if the small business can't efficiently hire, train, appraise, and compensate employees, how will it compete with companies that can? It could be at a ***competitive disadvantage***.

DIVERSITY COUNTS

Necessity and the Entrepreneur

Of the approximately 32 million small businesses in the United States, women own about 11 million, and members of minority groups own about 8 million.[14]

More men than women start new businesses, but still, according to one study, about 100 million women in 59 countries started new businesses in one year.[15] Most of the women who did start businesses were not in the developed world. The most likely countries for women to start businesses were in Latin America and sub-Saharan Africa. This may be because women have more career options in more developed economies. In developing economies such as Ghana, fewer career options perhaps drives more women to start businesses. ■

Why Human Resource Management Is Important to Small Businesses

A small software start-up faced turmoil when one employee accused another of harassment. The moral, says one expert, is that even start-ups need a functioning HR system.[16]

In fact, small firms with effective HR practices do better than those without them. For example, a study in the United Kingdom found a direct positive relationship between small companies' use of formal human resource practices and the companies' financial performance and labor productivity.[17] A recent study concluded that high performing small businesses tend to use more sophisticated human resource management practices than do low performing ones.[18] An earlier study of 168 small and medium-size companies found that the successful ones placed more emphasis on training and development, performance appraisal, recruitment, morale, and competitive compensation.[19]

Many small firms also need effective human resource management to get customers. To comply with their own international ISO-9000 quality standards, many large customers check that their small vendors meet the ISO HR standards.[20]

How Small Businesses Manage Human Resource Management

For small business owners, HR starts before you're in business. For example, you will need to get an employer ID number, determine if state or local tax IDs are required, classify workers, schedule pay periods to coordinate IRS tax withholdings, and have a pay plan covering holidays and other leaves.[21]

Early on, most small business owners handle human resource management themselves. But at some point—perhaps around twenty employees—the owners will decide their time is better spent in other ways.

At that point owners have three options: *delegation*, *software systems*, or *outsourcing*.[22] Many *delegate* one or more human resource tasks to employees. Thus the bookkeeper might do payroll, and the personal assistant recruitment. Unfortunately, according to one survey, 82% of the people to whom they delegate have no formal HR training.[23] (The SBA offers human resource management training videos through its website).

Using human resource management *software* to handle tasks such as applicant tracking, online selection testing, and performance management is another option.[24] For example, we'll see that BambooHR's small business packages include things like employee records management, and hiring (including a mobile hiring app).

Outsourcing is a third option. Some owners retain consultants to provide knowledgeable assistance in job analysis, recruiting, selection, and other matters. Many small businesses outsource one or more HR tasks, such as for payroll services, to vendors such as ADP. And many small and mid-size businesses outsource essentially all their personnel tasks to Professional Employer Organizations.

The following two sections—Using Internet, Government, and Other Tools to Support the HR Effort, and Leveraging Small Size with Familiarity, Flexibility, Fairness, and Informality—provide HR management information for owners, and for the employees to whom the owner *delegates* human resource management tasks. The last two sections—Using Professional Employer Organizations, and Managing HR Systems Procedures, and Paperwork—address the owner's other two options, *outsourcing*, and *software systems*.

LEARNING OBJECTIVE 18-2

Give four examples of how entrepreneurs can use Internet and government tools to support the HR effort.

Using Internet, Government, and Other Tools to Support the HR Effort

Small business owners can improve their HR processes by using Internet-based HR resources, including free online resources from the U.S. government. For example, the Small Business Administration (SBA) provides (under Manage Your Business) a *Hire and Manage Employees* page.[25] Other useful sites include the following.

Government Tools for Complying with Employment Laws

Complying with federal (and state and local) employment law is a thorny issue for entrepreneurs. For example, the entrepreneur needs to know, "Must I pay this person overtime?" and, "Must I report this injury?"

DOL online elaws advisors The U.S. Department of Labor provides "elaws Advisors" for laws it administers covering matters like pay and benefits, the Fair Labor Standards Act (FLSA), and health and safety. Using elaws Advisors is a bit like having an expert for advice, for example "is this employee exempt from overtime pay requirements?"[26] Thus, for questions about the FLSA:

- You can use the DOL's **FLSA Overtime Calculator** at www.dol.gov/elaws/otcalculator.htm to calculate overtime pay.[27]
- The Coverage and Employment Status Advisor at www.dol.gov/elaws/flsa.htm helps identify which workers are **employees covered by the FLSA**.
- The **FLSA Hours Worked Advisor** at www.dol.gov/elaws/esa/flsa/hoursworked provides information to determine which hours spent in work-related activities are considered FLSA "hours worked" and therefore must be paid.
- The **FLSA Overtime Security Advisor** at www.dol.gov/elaws/overtime.htm helps determine which employees are exempt from the FLSA minimum wage and overtime pay requirements under overtime regulations.

DOL online elaws advisors
The U.S. Department of Labor provides "elaws Advisors" for laws it administers covering matters like pay and benefits.

FLSA overtime calculator
at www.dol.gov/elaws/otcalculator.htm is used to calculate overtime pay.

FLSA hours worked advisor
at www.dol.gov/elaws/esa/flsa/hoursworked provides information to determine which hours spent in work-related activities are considered FLSA "hours worked" and therefore must be paid.

FLSA overtime security advisor
at www.dol.gov/elaws/overtime.htm helps determine which employees are exempt from the FLSA minimum.

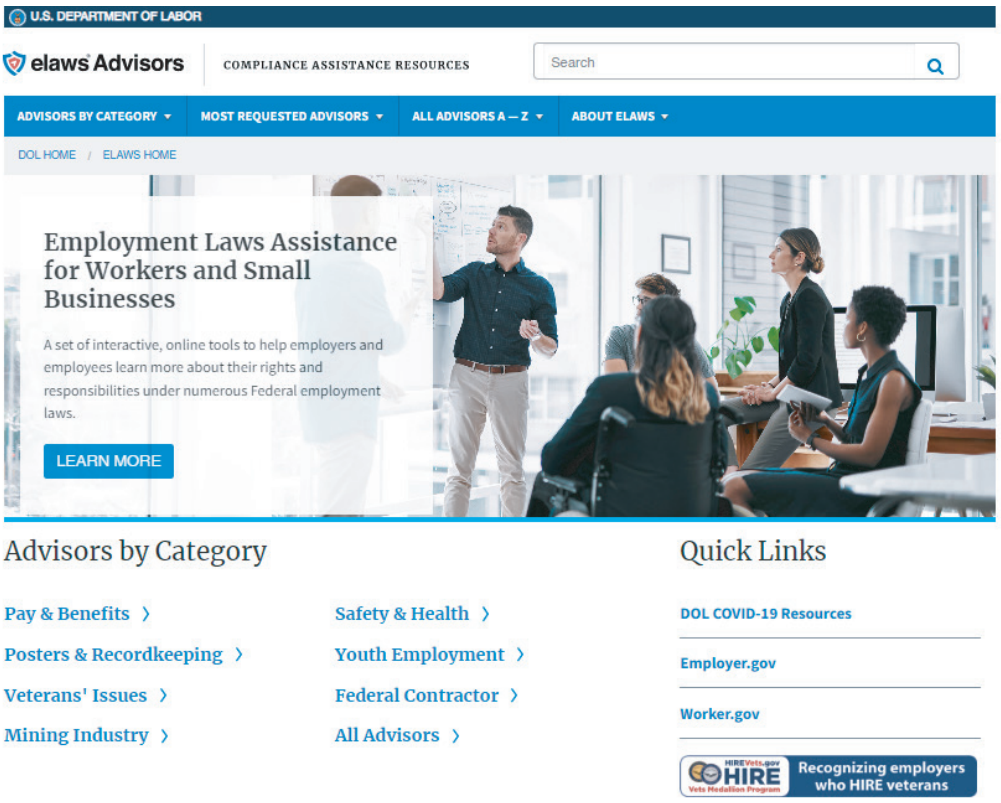


FIGURE 18-1 U.S. Department of Labor elaws Advisors for Small Businesses, accessed May 18, 2022.

Figure 18-1 presents a list of available DOL elaws Advisors.[28]

EEOC ONLINE The U.S. Equal Employment Opportunity Commission website provides small business owners with practical advice. For example, "What should I do when someone files a charge against my company?" Its website (www.eeoc.gov/employers) contains important information regarding matters such as:

- How do I determine if my business is covered by EEOC laws?
- Who may file a charge of discrimination with the EEOC?
- Can a small business resolve a charge without undergoing an investigation or facing a lawsuit?

The accompanying Diversity Counts feature expands on this.

DIVERSITY COUNTS

Local Equal Employment Law

Most federal equal employment laws such as Title VII generally do not apply to very small businesses, specifically those with 14 or fewer employees. According to the EEOC,[29]

> If you have *at least one* employee, you are covered by the law that requires employers to provide **equal pay for equal work** to male and female employees; and
>
> If you have *15 to 19 employees*, you are also covered by the laws that prohibit discrimination based on **race, color, religion, sex, national origin, disability and genetic information**; and
>
> If you have 20 or more employees, you are also covered by the laws that prohibit discrimination based on **age (40 or older)**.

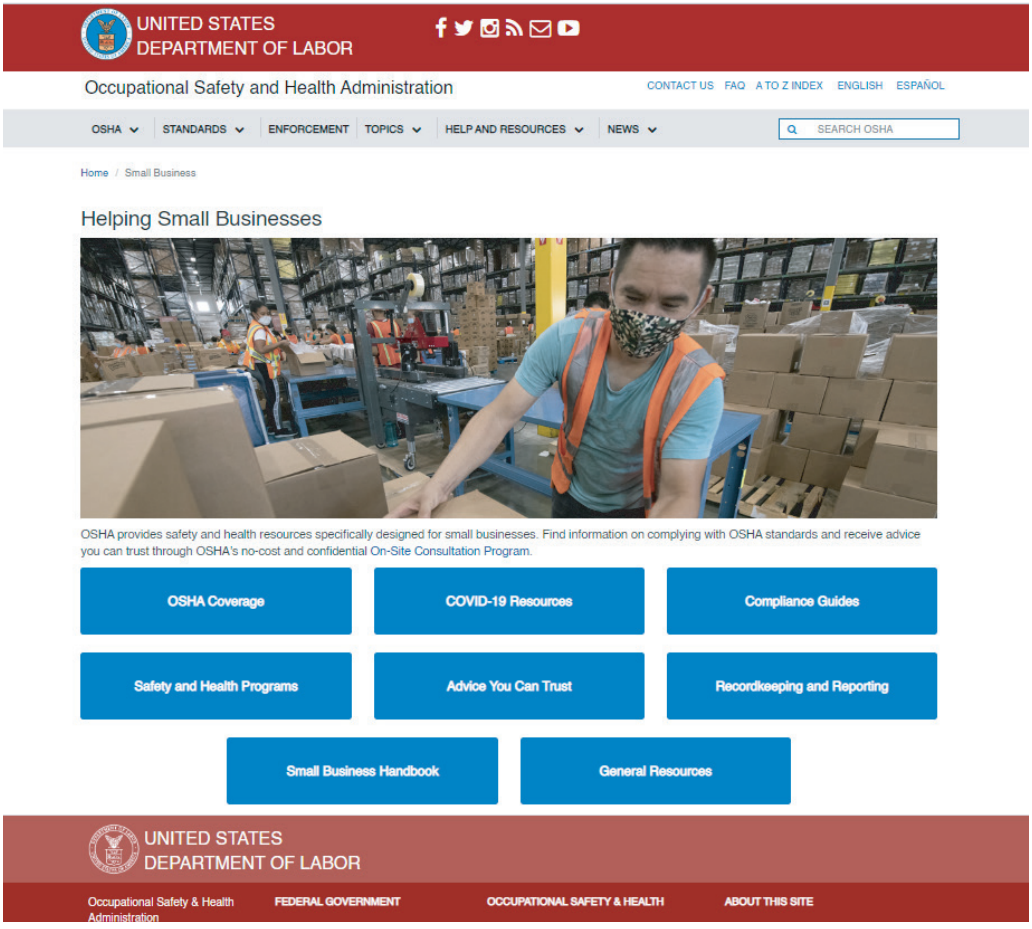
That would seem to imply that most employment discrimination in businesses with 14 or fewer employees, while no less unacceptable, is not against the law. However, legality depends on where you are. Many states and local governments have their own equal rights laws. For example, the New York State Human Rights Law covers all businesses regardless of size, so such actions would be illegal there.[30] ■

hazard awareness advisor at https://webapps.dol.gov/elaws/safety.html helps employers identify workplace hazards.

OSHA ONLINE TOOLS FOR SMALL BUSINESSES The DOL's Occupational Safety and Health Administration site (www.osha.gov) provides specific guidance and checklists for small business managers (see Figure 18-2). OSHA's site provides, among other things, easy access to the *OSHA Small Business Handbook*. This contains practical information, including industry-specific safety and accident checklists. You can also find OSHA elaws advisors, at https://webapps.dol.gov/elaws/safety.html. For example use the OSHA elaws **Hazard Awareness Advisor** at https://webapps.dol.gov/elaws/safety.html.

FIGURE 18-2 OSHA Small Business Website

Source: U.S. Department of Labor, https://www.osha.gov/smallbusiness, accessed May 18, 2022.



Online Employment Planning and Recruiting Tools

Online employment planning and recruiting tools are as useful for small businesses as for large (and sometimes more so). For example, as we saw in Chapter 4 (Job Analysis), O*NET (http://online.onetcenter.org) can help small business owners create job descriptions and job specifications quickly.

Small business owners also use the online recruiting tools in Chapter 5 (Recruiting). For example, it's relatively easy to find potential candidates on LinkedIn .com, and, certainly, to post jobs on Indeed.com, Careerbuilder.com, and on professional associations' job boards. Similarly, most applicant tracking software does more than track job candidates.[31] They also automatically post open jobs to job websites.

Many small businesses use *social media* to recruit applicants.[32] For example, LinkedIn lets employers post job openings, and facilitates business networking. One recruiter reportedly looks for LinkedIn members who have compelling summaries, excellent recommendations, and memberships in industry groups. On Twitter, recruiters see if a potential candidate has an appropriate username and photos. But also check

Twitter for things like the person's status updates and retweets, to see (for instance) if the person shares useful information. Small business's recruiters should also focus on the social media that makes sense for them. For example, if you're looking for a Facebook marketing expert, look on Facebook. Or for a photographer on Instagram. When using Facebook and LinkedIn, focus recruiting efforts on industry groups that make sense for your company. Check to see how your competitors use social media, and which communities they use.

Social media recruiting entails risks. For example, conversing with someone whose Facebook profile reveals their ethnic background could expose the employer to a discrimination suit if that applicant isn't hired. And many agree that at the end of the day, social media recruiting can't substitute for in-person interactions.

Small Business Employee Selection Tools

Some tests are so easy to use they're particularly helpful for small firms. One is the *Wonderlic Personnel Test* (www.wonderlic.com/), which measures general mental ability. With questions somewhat similar to the SAT, it takes less than 15 minutes to administer. The tester reads the instructions, and keeps time as the candidate works through the 50 problems. The tester scores the test by totaling the number of correct answers. Comparing the person's score with the minimum scores recommended for various occupations shows whether the candidate achieved the minimum score for the job in question.

The *Predictive Index* is another example. It measures work-related personality traits, drives, and behaviors—in particular, dominance, extroversion, patience, and blame avoidance. A template makes scoring simple. The Predictive Index program includes 15 standard benchmark personality patterns. For example, there is the "social interest" pattern, for a person who is generally unselfish, congenial, persuasive, patient, and unassuming. This person would be a good personnel interviewer, for instance.

Many vendors, including Wonderlic and Predictive Index, offer online applicant testing and screening services. Wonderlic's service (which costs about $9,000 per year for a small firm) first provides job analyses for the employer's jobs. Wonderlic then provides a website the small business's applicants can log into to take one or several selection tests. It will also help set up a testing procedure.

Fizkes/Shutterstock

Use online tests, for instance, to test an applicant's typing speed, proficiency at QuickBooks, or even ability to sell over the phone.

Some other small business recruiting and selection suggestions would include

- ***Don't forgot the obvious.*** Sometimes the easiest way to get good candidates is a "Help Wanted" sign on the door.
- ***Keep it local, and in the industry.*** Use online job boards that target a particular industry or city to minimize irrelevant applicants.[33] For example, Jobing.com maintains city-specific job sites in over 19 states.[34] Many employers use Dice .com for recruiting technical professionals.[35]
- ***Test online.*** Use online tests, for instance, to test an applicant's proficiency at QuickBooks, or even at selling over the phone. Test vendors include (as a small sample) IBM's Kenexa,[36] eskill.com, and selectivehiring.com.[37]
- ***Poll your contacts.*** Tap friends and employees for recommendations, and use social networking sites such as LinkedIn. One employer says, "I get people vouching for each applicant, so I don't have to spend hours sorting through résumés."[38]
- ***Send a recording.*** InterviewStream is one of several vendors that records online video interviews inexpensively.[39] It sends the candidate an e-mail invitation with a link. When the person clicks the link, a video interviewer asks the company's prerecorded questions. Hiring managers can review the videos at their leisure.[40]

The Strategic Context: Everlane

Everlane's strategy builds its brand around ethical manufacturing and transparency. Ethical manufacturing meant they spent months finding a factory to make their new jeans in Vietnam. They chose it because it recycles 98% of the water used in denim manufacturing.[41]

A strategy like that requires recruitment, selection, and compensation practices that fit. Therefore, when Everlane decided to emphasize transparency in its hiring no one was surprised. For example, they started recruiting job candidates by having them submit 60- to 90-second Snapchat stories, to show why they're a good candidate for Everlane. The idea is to create the story, tweet Everlane your snap code, and save the story before 24 hours run out, and mail it to Everlane.

A big reason they use social media to recruit is that it's likely to attract people who are already following Everlane. It seems to be working. Candidates are sending those Snapchat stories, taking them step-by-step through their presentations. Everlane is getting applications from already engaged prospective employees for whom the company's goals resonate. Similarly, Everlane's career website page addresses itself to "rule breakers, questioners, and straight A students who skipped out of class." Their site is also forthright in laying out Everlane's basic values, such as "everyone can, and should, make a difference," and "the ethical choice is the right one." The result of such recruiting? Everlane is building a team that's deeply engaged in the company's values and goals. In small businesses, as in large ones, it's important to link your human resource management strategy to the company's overall strategic plan.[42]

Small Business Training Tools

Small companies can't compete with the training resources of giants like Google. However, as explained in Chapter 8 (Training), online tools can help level the playing field.

Online sources (see Chapter 8) include vendors such as www.skillsoft.com. The buyer's guide from the Association for Talent Development (www.td.org/) offers a comprehensive list of vendors.[43] Online learning platforms like Docebo's (www .docebo.com/) enable a company's employees to access off-the-shelf and customized online learning courses and programs.[44]

Employment Appraisal and Compensation Online Tools

As we note elsewhere, small business owners have available numerous online performance management software packages, including those from Performance Pro, and Trakstar.[45] The former, for example, includes provisions for customizable criteria weightings and competency definitions, and provisions for 360-degree appraisals and feedback.[46]

Similarly, lack of easy access to expensive salary surveys once made it difficult for small businesses to adjust their pay scales. Today, sites like www.salary.com and www.Glassdoor.com make it relatively easy to determine local and national pay rates. Benefits administration packages, as from paycom.com make it easy for employees to register for benefits using a self-service app, and to monitor and keep their benefits up to date.[47]

Employment Safety and Health Tools

Average injury rates for small businesses are somewhat lower than in big companies.[48] However, most people work for small businesses, so that's still a huge number of total accidents. Small business managers should have a command of the tools and techniques in Chapter 16 (Safety).

As also explained there, OHSA provides free services for small employers.[49] These include free on-site safety services for small businesses. OSHA has a SHARP program, a process through which they certify that small employers have achieved commendable levels of safety awareness.[50] OSHA's Small Business Health and Safety Manual, accessible (as noted) through their website, provides valuable tools including health and safety checklists.[51]

LEARNING OBJECTIVE 18-3

List five ways entrepreneurs can use their small size to improve their HR processes.

Leveraging Small Size with Familiarity, Flexibility, Fairness, and Informality

Because small businesses need to capitalize on their strengths, it makes sense for them to capitalize on their smallness when dealing with employees. For example, smallness can mean more personal *familiarity* with each employee's strengths, needs, and family situation. And it can mean being more *flexible* and *informal* in its human resource management policies and practices.[52]

Simple, Informal Employee Selection Procedures

In addition to online recruitment and selection tools, small business owners may particularly benefit from simple, low-tech selection aids. For example, the Work Sampling Test we explained in Chapter 6 involves having candidates show how they'd actually do one of the job's tasks. The accompanying HR Tools discussion presents an informal selection interview procedure (as compared with Chapter 6's structured interview approach).

HR Tools for Line Managers and Small Businesses: A Streamlined Interviewing Process[53]

The small business owner, pressed for time, can use a streamlined employment interview process.[54] One way to do so is to focus on four basic factors: knowledge and experience, motivation, intellectual capacity, and personality. To do so, interviewing expert John Drake suggests asking the following questions:

- ***Knowledge and experience.*** What must the candidate know to perform the job? What experience is necessary to perform the job? For example, ask a combination of situational questions plus open-ended questions to probe the candidate's suitability for the job, such as, "How would you organize such a sales effort?" or "How would you design that website?"
- ***Motivation.*** What should the person like doing to enjoy this job? Is there anything the person should not dislike? Are there any essential goals or aspirations the person should have? For example, probe such areas as the person's likes and dislikes (for each thing done, what the person liked or disliked about it).
- ***Intellectual capacity.*** Are there any specific intellectual aptitudes required (mathematical, mechanical, and so on)? How complex are the problems the person must solve? What must a person be able to demonstrate intellectually? For example, ask questions that judge such things as complexity of tasks the person has performed, and grades in school.

- ***Personality.*** What are the critical personality qualities needed for success on the job (ability to withstand boredom, decisiveness, stability, and so on)? How must the job incumbent handle stress, pressure, and criticism? What kind of interpersonal behavior is required in the job? For example, probe by looking for self-defeating behaviors (aggressiveness, compulsive fidgeting, and so on) and by exploring the person's past interpersonal relationships, such as leading the work team on the last job. Is the candidate personable? Shy? Outgoing?

HOW TO ORGANIZE THE INTERVIEW *Have a plan*. Devise and use a plan to guide the interview. Drake says that significant areas to touch on include the candidate's:

- College experiences
- Work experience—summer, part-time
- Work experience—full-time (one by one)
- Goals and ambitions
- Reactions to the job you are interviewing for
- Self-assessments (by the candidate of his or her strengths and weaknesses)
- Military experiences
- Present outside activities[55]

Follow your plan. Start with an open-ended question for each topic, such as "Could you tell me about what you did in college?" Then probe for information about the person's knowledge and experience, motivation, intelligence, and personality.

Match the candidate to the job. You should now be able to draw conclusions about the person's knowledge and experience, motivation, intellectual capacity, and personality, and to summarize the candidate's strengths and limits. This should provide a rational basis for matching the candidate to the job—one based on the traits and aptitudes the job actually requires.

Flexibility in Training

Two things characterize small business training. First, small businesses focus on what the training will do *for their bottom lines*, rather than on how employees may benefit.[56] (Similarly, they focus management development on teaching specific firm-related skills, such as how to sell the firm's products.)[57]

Second, a study several years ago in Europe found that small firms were also *relatively informal* in how they trained employees.[58] This reflects the need to be flexible, and in any case (as explained in Chapter 8), training experts estimate that much of training is in fact "informal."

ENCOURAGING INFORMAL TRAINING Given the importance of informal learning, small business managers should take steps to encourage and facilitate it.

There are, first, several things we know about how and why people learn. Informal learning occurs when employees *have something they need to learn*, are *motivated to learn it*, and are given *the opportunity to learn*.[59] Informal learning tends to take place as *a by-product of employees' other activities*, and so usually occurs during day-to-day conversations, networking, and through teamwork and mentoring.[60] (To paraphrase one expert, workers learn more over coffee than they do taking courses.)[61] The best informal learning also tends to be *goal directed*: for example, a manager who needs to recruit an engineer asks LinkedIn group colleagues how to do so; informal learning is thus often *triggered by something at work* that motivates the employee to initiate an informal learning interaction.[62] And, informal learning occurs best where employees know that top *management encourages and supports* such learning.[63]

Given all this, small business owners can do several things to encourage and facilitate informal learning. These include

- Make it clear that you encourage employees to learn on the job, particularly when they're faced with a work problem.[64]

- Make high-quality content available. For example, while much on the Internet is free, sometimes the job-relevant content for your company requires a subscription; if so, provide one.[65]
- Encourage supervisors to provide informal learning through coaching.[66]
- Offer to cover tuition for special classes.[67]
- Identify online training opportunities.[68]
- Encourage and facilitate (for instance, through a dedicated page on the company intranet) the sharing of best practices.[69]
- Send employees to special seminars and meetings for learning and networking.[70]
- Provide plenty of opportunities for informal learning at work, such as chalkboards at worksites and lunch areas.

Flexibility in Benefits and Rewards

Several years ago, The Family and Work Institute surveyed the benefits practices of about 1,000 small and large companies.[71] They found that large firms offer more *extensive* benefits than do smaller ones. For example, larger employers offered more wellness programs, and asked their employees to pay a smaller share of health premiums, on average.

However, small firms offered more flexibility. For example, employees at small employers (50–99 employees) were more likely than large ones (1,000 or more employees) to (1) take time off during the workday to attend to important family or personal needs without loss of pay; (2) have control over when to take breaks; and (3) periodically change starting and quitting times within some range of hours.[72]

Today, the COVID-19 pandemic obviously prompted many employers, large and small, toward flexibility, particularly with regard to work arrangements and time off. However, small businesses can still encourage flexibility.

Wards Furniture in Long Beach, California, illustrates this. Many of its 17 employees have been with the firm for 10 to 20 years. Brad Ward, an owner, attributes this partly to his firm's willingness to adapt to its workers' needs. For example, workers can share job responsibilities and work part-time from home. Wards creates valuable work–life benefits such as extra time off, compressed workweeks, schedule flexibility, and recognition for employees.

Here are other examples of what Wards and other small employers can offer:[73]

- ***Extra time off.*** For example, Friday afternoons off in the summer.
- ***Compressed workweeks.*** For example, compressed summer workweeks.
- ***Bonuses at critical times.*** Small business owners are more likely to know what's happening in their employees' lives. Use this knowledge to provide special bonuses, for instance, if an employee has a new baby.
- ***Flexibility.*** For example, "If an employee is having a personal problem, help create a work schedule that allows the person to solve problems without feeling like they're going to be in trouble."[74]
- ***Sensitivity to employees' strengths and weaknesses.*** The small business owner should stay attuned to his or her employees' strengths, weaknesses, and aspirations. For example, give them an opportunity to train for and move into the jobs they desire.
- ***Help them better themselves.*** For example, pay employees to take a class to help them develop their job skills.
- ***Feed them.*** Provide free meals occasionally, perhaps by taking your employees to lunch.
- ***Make them feel like owners.*** For example, give employees input into major decisions, share company performance data with them, and let them share in the company's financial success.
- ***Make sure they have what they need to do their jobs.*** Having motivated employees is only half the challenge. Also ensure they have the necessary training, procedures, computers, and so on.
- ***Constantly recognize a job well done.*** Capitalize on your day-to-day interactions with employees to "never miss an opportunity to give your employees the recognition they deserve."[75]

At Wards Furniture, workers can share job responsibilities and some can work part-time from home.

Thomas Barwick/DigitalVision/Getty Images

SIMPLE RETIREMENT BENEFITS An easy way for small businesses to provide retirement benefits is through a SIMPLE IRA plan.[76] With the SIMPLE (for Savings Incentive Match Plan for Employees) IRA, employers must (and employees may) make contributions to traditional employee IRAs. These plans are for small employers with 100 or fewer employees and no other retirement plan.

SIMPLE IRAs are inexpensive and easy. The owner contacts an eligible financial institution and fills out several IRS forms.[77] Most banks, mutual funds, and insurance companies that issue annuity contracts are generally eligible.[78] The plan has very low administrative costs. Employer contributions are tax deductible.[79] A typical employer contribution might match employee contributions dollar for dollar up to 3% of pay. The financial institution usually handles the IRS paperwork and reporting.

Fairness and the Family Business

Most small businesses are "family businesses," since the owner (and often some employees) are family members.[80]

Being a nonfamily employee here isn't easy. The tendency is to treat family and nonfamily employees differently. If so, as one writer puts it, "It's a sure bet that their lower morale and simmering resentments are having a negative effect on your operations and sapping your profits."[81] Differential treatment of nonfamily versus family employees is so widespread that it is an area of small business research. Two experts suggest family business owners follow a four-step program to ensure fairness.[82]

- First, the family *commits* to the idea that *all* employees should be treated fairly and consistently.[83] Work hard to avoid "any appearance that family members are benefiting unfairly from the sacrifice of others."[84] Avoid "any behavior that would lead people to the conclusion that they are demanding special treatment in terms of assignments or responsibilities."[85]
- Second, the family *communicates* their commitment that all employees are entitled to fair practices.[86]
- Third, before they sign on, all employees must know that they can "freely and safely" *discuss and report* perceived unfair decisions.[87] Particularly inform

management applicants as to whether there is potential for promotion. Make the expectations clear, regarding matters such as the authority the person will have.[88]
- Fourth, have a *committee* that meets monthly, to correct any alleged unfair decision voiced by family or nonfamily employees.[89]

LEARNING OBJECTIVE 18-4

Discuss how you would choose and deal with a Professional Employer Organization.

Using Professional Employer Organizations

As we explained in Chapter 13 (Benefits), many small business owners—pressed for time and concerned about the legal pitfalls of personnel blunders—opt to outsource all or most of their human resource functions to vendors. These vendors go by the names *Professional Employer Organizations* (PEOs), *human resource outsourcers* (HROs), or sometimes *employee* or *staff leasing firms*. According to the PEOs' national association, there are more than 900 PEOs in America, serving about 175,000 small and medium-sized businesses.[90]

How Do PEOs Work?

PEOs range from specialized payroll companies to ones that handle all an employer's human resource management needs.

In determining which personnel tasks to outsource, the small business owner has many choices. At a minimum, these firms take over the employer's payroll tasks. Usually, however, PEOs shoulder most of the employer's human resources chores. By transferring the client firm's employees to the PEO's payroll, PEOs become co-employers of record for the employer's employees. The PEO can then fold the client's employees into the PEO's insurance and benefits program, possibly at a lower cost.[91]

PEOs usually handle employee-related activities such as recruiting, hiring (with client firms' supervisors' approvals), and payroll and taxes. PEO companies like Paychex (www.paychex.com) provide payroll, tax, and benefits processing but also handle recruiting and training. Paychex can also handle outsourcing and the full human resource process for small companies, ranging from recruitment through selection, training, appraisal, and compensation.[92] ADP TotalSource (https://www.adp.com/logins/adp-totalsource.aspx) handles payroll processing for thousands of employers, but can also manage the entire HR process, even including initial candidate interviews.[93]

Most PEOs focus on smaller employers, often those with under 100 employees (although some handle clients of 5,000 employees or more).[94] They typically charge fees of 2% to 4% of a company's payroll; alternatively, some charge monthly per-employee fees of $40–$125, depending on the services provided.[95]

Why Use a PEO?

Why outsource human resource management instead of managing it in-house? Small owners probably each have their own reasons. However, many believe that the right PEO will provide HR sophistication (and peace of mind) that they can't duplicate in-house. Many believe that it may also actually cost less to outsource those activities, once the assumedly lower costs of health insurance are factored in. ADP TotalSource's services include "HR support and peace of mind" for the full range of human resource management activities, from recruiting, to compensation, safety, employee handbooks, and investigations if employees file internal complaints.[96]

INSURANCE AND BENEFITS But *insurance and benefits* are often the big PEO selling point. Getting health and other insurance can be a problem for smaller firms. That's where PEOs come in. The PEO absorbs the client firm's employees as its own. That may enable the PEO to offer larger benefits packages more cheaply than a small business could get on its own. However small-business owners have to investigate this benefit for their own situations and locales (since costs vary). One recent study concluded that the average family insurance premiums for small firms ($20,236) and large firms ($20,717) didn't really differ much in any case. Therefore, using PEOs may not have substantially reduced the cost to small firms.[97]

- Know ahead of time the human resource concerns your company wants to address.
- Review the services of all PEO firms you are considering. Determine which can address your concerns.
- Determine if the PEO has achieved IRS Professional Employer Organization Certification.
- Check the provider's bank, credit, insurance, and professional references.
- Understand how employee benefits will be funded. Fully insured or partially self-funded? Who's the carrier? Confirm that employers will receive first-day coverage.
- Check if the PEO assumes the compliance liabilities in the applicable states.
- Review the service agreement. Are the respective parties' responsibilities and liabilities clear?
- Investigate how long the PEO has been in business.
- Check out the prospective PEO staff. Do they have the expertise to deliver on its promises?
- Ask, how will the firm deliver its services? In person? By phone? Via the web?
- Ask about upfront fees and how these are determined.
- Periodically confirm that payroll taxes and insurance premiums are paid, and legal issues addressed.

FIGURE 18-3 Guidelines for Managing the PEO Relationship

Source: Based on Robert Beck and J. Starkman, "How to Find a PEO That Will Get the Job Done," *National Underwriter* 110, no. 39 (October 16, 2006), pp. 39, 45; Lyle Dewitt, "Advantages of Human Resource Outsourcing," *The CPA Journal* 75, no. 6 (June 2005), p. 13; www.peo.com/dmn, accessed April 28, 2008; Layne Davlin, "Human Resource Solutions for the Franchisee," *Franchising World* 39, no. 10 (October 2007), p. 27; and see, for example, www.adp.com/solutions/employer-services/totalsource/what-is-a-peo.aspx, accessed September 24, 2015; Lorraine Lee and Ursula Ramsey, "Certified Professional Employer Organization: The First Four Years," *Journal of Accountancy* 232, no. 1 (July 1, 2021), pp. 42–48.

CAVEATS There are several potential downsides to PEOs. Many employers view their human resource management practices (like training new engineers) as strategic; they aren't inclined to turn them over to outsiders (let alone accept having outsiders be their employees' legal employer). Furthermore, the fact that your (former) employees get their health insurance through the PEO has cons as well as pros.[98] For example, if the PEO goes out of business, its small business clients may scramble to replace their insurance. And if the PEO decides to switch insurance plans, your own employees may not be pleased with their new policies. Some feel strongly that their employees would resist dealing with a PEO (although again, more than 175,000 businesses apparently use them, assumedly successfully).[99]

The Tax Increase Prevention Act of 2014 required the IRS to implement a voluntary program for certifying PEOs as *Certified Professional Employer Organization*. Many PEOs have achieved certification.[100]

Figure 18-3 summarizes guidelines for finding and working with PEOs.

LEARNING OBJECTIVE 18-5

Describe how you would create a start-up human resource system for a new small business.

Managing HR Systems, Procedures, and Paperwork

Introduction

Consider the paperwork required to run a five-person retail shop. Just to start with, recruiting and hiring an employee might require a help wanted advertising listing, an employment application, an interviewing checklist, various verifications—of education and immigration status, for instance—and a reference checklist. You then might need an employment agreement, confidentiality and noncompetition agreements, and an employee manual acknowledgment. To process the new employee you might need a background verification, a new employee checklist, and forms for withholding tax and to obtain new employee data. And to keep track of the employee once on board, you'd need—just to start—a personnel data sheet, daily and weekly time records, an hourly employee's weekly time sheet, and an expense report. Then come the performance appraisal forms, a disciplinary notice, an employee orientation record, separation notice, and employment reference response.

In fact, that list barely scratches the surface of the policies, procedures, and paperwork you'll need to run the human resource management part of your business. Perhaps with just one or two employees you could track everything in your head, or just write a separate memo for each HR action, placing it in a folder for each worker. But with more employees, you'll need a human resource system comprised of standardized forms. Then as the company grows, you'll computerize various parts of the HR system—payroll, or appraising, for instance.

Basic Components of Manual HR Systems

Very small employers (say, with 10 employees or less) may start with a manual human resource management system. In practice, this generally means obtaining a set of standardized personnel forms. These cover each aspect of the HR process—recruitment, selection, training, appraisal, compensation, safety—and a file for organizing all this for each employee. The number of forms you would need even for a small firm is large, as the illustrative list in Table 18-1 shows.[101] Many need to be state-law compliant.

There are numerous ways to obtain a manual system's basic forms. The website www.hr.com/ provides many forms free to registered members, and membership is free.[102] Sites including Amazon sell CDs containing hundreds of forms, as well as selling hard-copy forms.[103] Office Depot/Office Max (among other office supply stores) sell packages of personnel forms.[104] Also available is a package of Employee Record Folders to maintain a file on each employee. Numerous direct-mail catalog companies such as HRdirect (www.hrdirect.com) offer packages of personnel forms.[105]

TABLE 18-1 Some Important Employment Forms

New Employee Forms	Current Employee Forms	Employee Separation Forms
Employee Application	Employee Status Change Request	Retirement Checklist
New Employee Checklist	Employee Record	Termination Checklist
Employment Interview	Performance Evaluation	COBRA Acknowledgment
Reference Check	Warning Notice	Unemployment Claim
Telephone Reference Report	Vacation Request	Employee Exit Interview
Employee Manual Acknowledgment	Probation Notice	Exit Interviews
Employment Agreement	Job Description	
Employment Application Disclaimer	Probationary Evaluation	
Employee Secrecy Agreement	Direct Deposit Acknowledgment	
FMLA Notice	Absence Report	
	Disciplinary Notice	
	Grievance Form	
	Expense Report	
	401(k) Choices Acknowledgment	
	Injury Report	

Automating Individual HR Tasks

As the small business grows, it becomes impractical to rely on manual systems. It is at this point that most small to medium-sized firms begin computerizing (or outsourcing) individual human resource management tasks.

Payroll administration (including time tracking and legal compliance) are among the first HR activities most small-business owners computerize or outsource. It is a time-consuming and specialized task. Furthermore, violating federal regulations regarding things like employee classification and overtime is common and costly.[106] And time tracking requires not just compiling and maintaining accurate data on workers' hours, but also things like overtime pay and paid leave.

SOFTWARE PACKAGES Vendors provide software solutions for virtually all personnel tasks, ranging from payroll to benefits management, compensation, compliance, employee relations, outsourcing, and time and attendance systems. For example the paycom.com payroll package[107] includes a self-service app that enables employees to input their time data and other personal information, and then manages the payroll process through producing paper checks. Vendors such as Breezy[108] offer applicant

tracking software to automate the recruitment/hiring process. Trakstar (and others) offers a remote-capable performance appraisal package.[109]

HR in Action at the Hotel Paris Lisa had managed to install several separate information systems, such as for performance appraisals. However, as she discussed one day over lunch with the CFO, these systems were not integrated. To see how she handled this, see the case at the end of this chapter.

Human Resource Information Systems (HRIS)

As the company grows, a more comprehensive, integrated system becomes advisable. We can define a Human Resource Information System (HRIS) as human resource software that unifies HR management processes such as applicant tracking, hiring, training, performance management, benefits administration, and payroll into one automated system.[110] Websites such as Capterra.com[111] as well as *PC Magazine*[112] periodically list top integrated HR software packages; they include Gusto (https://gusto.com/), BambooHR (www.bamboohr.com/), ADPWorkforceNow, and Paychex. Also note that both Oracle and SAP offer such products.[113]

As an example, BambooHR handles personnel tasks including *applicant tracking* (including automatically sending *recruitment* ads to job boards), employee *time off tracking, HR reporting* (in terms of reports on employment levels, and so on), online employee *self onboarding*, and *performance management*, in terms of tracking goals and helping managers appraise subordinates based on those goals.[114]

With BambooHR and similar systems, there are several benefits to installing an HRIS, starting with improved transaction processing.

Improved Transaction Processing

Maintaining and updating employee records is time consuming. This is therefore one of the first tasks small businesses automate. When records management is integrated within an HRIS, data from one activity—such as training results—can move seamlessly to and from each employee's records.

Online Self-Processing

HR information systems also facilitate employee self-processing. For example, with systems like that from Zenefits (www.zenefits.com), "[n]ew hires can self-enroll in medical, dental and vision benefits during onboarding, and employees can easily sign up during open enrollment."[115]

Improved Reporting Capability

By integrating individual HR tasks (training records, appraisals, employee personal data, and so on), the HRIS improves HR's reporting capabilities. For example, reports can be available (companywide and by department) for things like healthcare cost per employee, pay and benefits as a percent of operating expense, and turnover costs.

HR System Integration

Because the HRIS's software components (record keeping, payroll, appraisal, and so forth) are integrated, they enable the employer to reengineer (basically, automate) its HR processes. For example, Oracle PeopleSoft HRIS[116] electronically routes salary increases, transfers, and other e-forms through the organization to the proper managers for approval. As one person signs off, it's routed to the next. If someone forgets to process a document, a smart agent issues reminders. The HRIS thus automates what might otherwise be a time-consuming manual process.

HR Apps

Various apps are available to enable employee self-processing for many human resource activities. For example, Timesheet Mobile lets employees use their GPS-supported cell phones to punch when they start and stop a job, and thus to track their accumulated

work time. That information then flows seamlessly into accounting software such as QuickBooks. WorkplaceAware (www.workplaceaware.com) lets employees inform management in real time via their phones about safety issues and near misses. It reportedly helps reduce workers' compensation costs, and can reduce safety problems. (However, having been told of a safety problem, it behooves the business to take action quickly.)[117] As noted earlier, software such as Breezy (and others) offer self-service apps for employees.

Chapter Review

Chapter Section Summaries

18-1. Many people reading this book will work for or own their own small businesses, so it's important to understand the **small business challenge**. Without effective human resource management, small business owners run the risk that they'll be at a competitive disadvantage or that without the necessary HR expertise they may commit mistakes that lead to litigation.

18-2. Being small, small businesses can particularly capitalize on freely available **Internet and government tools to support their HR efforts**. For example, you can use Department of Labor elaws Advisors to answer overtime questions, the EEOC's websites for answers on questions like "How can we resolve the charge?" and the Department of Labor's OSHA website to review, for instance, your small business handbook. To better compete, small business owners can also use online recruiting tools like those we discussed in Chapter 5 and training programs available online from companies such as PureSafety.

18-3. Small businesses need to capitalize on their strengths, and in this case, it means capitalizing on **familiarity, flexibility, and informality**. For example, be flexible about extra time off, compressed workweeks, and job enrichment. They can also use relatively informal but still effective employee selection procedures such as a work-sampling test. Informal training methods include online training opportunities, encouraging the sharing of best practices among associates, and sending employees to seminars. Because small businesses are often family businesses, it's important to treat nonfamily members fairly.

18-4. After reviewing all the challenges of managing human resources, many small business owners turn to **using Professional Employer Organizations**. Also called *human resource outsourcers or employee* or *staff leasing firms*, these firms generally transfer the client firm's employees to the PEO's own payroll and thus become the employer of record for the employer's employees.

18-5. Small business managers need to understand how their **HR systems, procedures, and paperwork** will evolve. At first, there may be a simple manual human resource management system, for instance, with employee records compiled on forms from office supply companies and maintained in manual files. The employer then may purchase one or more packaged systems for automating individual HR tasks, for instance, such as applicant tracking and performance appraisal. As companies grow, they will look to integrate the separate systems with a human resource information system.

Discussion Questions

18-1. How and why is HR in small businesses different than that in large firms?

18-2. Explain why HRM is important to small businesses.

18-3. Explain and give at least five examples of ways entrepreneurs can use small size—familiarity, flexibility, and informality—to improve their HR processes.

18-4. Describe with examples how you would create a start-up, paper-based human resource system for a new small business.

Individual and Group Activities

18-5. Form teams of five or six persons, each with at least one person who owns or has worked for a small business. Based on their experiences, make a list of the "risks due to inadequate HR practices" the business endured, in terms of competitive disadvantage, lack of specialized HR expertise, workplace litigation, compensation laws compliance, and paperwork/data-entry errors.

18-6. You own a small business, and you are confused about which of your employees is eligible for overtime pay. The employees in question include two accounting clerks, one engineer, and two inside salespeople. Individually or in groups of four or five students, use the DOL's Overtime Security Advisor and DOL's FLSA Overtime Calculator to determine who gets overtime pay.

18-7. You have about 32 employees working in your factory. Working individually or in teams of four or five students, find and create a list of five online sources you could use to provide training to them, at no cost to you or to them.

18-8. The HRCI *Exam Content Outline* website https://www.hrci.org/docs/default-source/web-files/phr-exam-content-outline.pdf?sfvrsn=13c44f61_28 lists the knowledge (see "Knowledge of") someone studying for the HRCI PHR certification exam needs to have in each area of human resource management (such as in Business Management, and in Talent Planning and Acquisition.)[118] In groups of several students, do four things: (1) review the *Exam Content Outline* on that website; (2) identify the material in this chapter that relates to the Exam Content Outline's required "Knowledge Of" lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.

Experiential Exercise

Building an HRIS

Written and copyrighted by Gary Dessler, PhD.

Purpose: The purpose of this exercise is to give you practice in creating a human resource management system (HRIS).

Required Understanding: You should be fully acquainted with the material in this chapter.

How to Set Up the Exercise/Instructions: Divide the class into teams of several students. Each team will need access to the Internet.

Assume that the owners of a small business come to you with the following problem. They have a company with less than 40 employees. They have been taking care of all HR paperwork informally, mostly on slips of paper and with memos. They want you to supply them with a human resource management information system—how computerized it is will be up to you, but they can only afford a budget of $5,000 upfront (not counting your consulting), and then about $500 per year for maintenance. You know from your HR training that there are various sources of paper-based and online systems. Write a two-page proposal telling them exactly what your team would suggest, based on its accumulated existing knowledge, and from online research.

Application Case

Netflix Breaks the Rules[119]

Written and copyrighted by Gary Dessler, PhD.

From the day he started Netflix, founder Reed Hastings believed in breaking the rules. His direct-to-consumer mail and video streaming business model certainly helped Netflix to survive. But the firm's unorthodox human resource management practices helped the company to attract and keep the high producers who design the products that are the firm's lifeblood. Hastings knew that top Silicon Valley workers could choose where they worked, and high pay is pretty much standard throughout the Valley's industries. How to set oneself apart? Hastings and his start-up colleagues believed that a culture that balanced a flexible work environment with few constraints and high responsibility was the answer. They called the policy "Freedom and Responsibility."

Just how unorthodox are the Netflix HR practices? Consider this: As a Netflix professional you get unlimited vacations. One engineer takes 5-week vacations to Europe, because he likes (as he says) to take his time off in big chunks. (An HR officer must approve time off in excess of 30 days annually.) As a Netflix employee, your pay isn't tied to performance appraisals, or even to a compensation plan. Frequent market salary surveys and pay hikes keep everyone's pay aligned with Silicon Valley competitors'. Each employee decides whether to take their pay in cash or in Netflix stock. Options vest immediately. Netflix doesn't recruit much at college job fairs, instead hiring mostly highly

experienced professionals. There's no training, professional development, or career planning at Netflix (except for legally required training, such as diversity training). You're in charge of your own career.

But with freedom like that comes responsibilities. The company expects its salaried employees to work hard—to "do the jobs of three or four people," as one report put it. And Netflix doesn't have the free-wheeling atmosphere that many dot-coms do. It's an adult environment. Netflix does not coddle underperformers. Yearly 360-degree performance reviews provide "direct and honest feedback." Those that aren't cutting it are quickly let go, but (whenever possible) amicably. Rather than the sorts of litigiousness that often characterize dismissals in other firms (having to prove the person was incompetent, for instance), Netflix writes a check. The company believes that a handsome severance payment helps maintain the person's dignity, makes it easier for supervisors to make tough calls with underperformers, and, of course, minimizes blowback from those it dismisses. It's more like a "no-fault divorce," as one observer put it. A recent decline in subscribers prompted Netflix to dismiss some employees, prompting some others to wonder if the culture there was about to change.

Questions

In many respects, the Netflix HR strategy seems like a dream come true for small businesses. You don't need a pay plan; instead, you just update each person's pay every few months based on market surveys. You offer no training and development. And you don't track vacation time, more or less. If someone's not doing well, you just pay him or her to leave, with no hassles. Netflix seems to have hit upon its own version of "Netflix High-Performance Work Practices." Given that, answer the following questions (please be specific).

18-9. What (if anything) was it about Netflix that makes its HR practices work for it?
18-10. Would you suggest using similar practices in other businesses, such as, say, a new restaurant? Why?
18-11. List the criteria you would use for deciding whether another company is right for Netflix-type HR practices.
18-12. What argument would you make in response to the following: "Netflix just lucked out; they'd have done even better with conventional HR practices."

Continuing Case

Carter Cleaning Company

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Cleaning in Challenging Times

As the economic downturn worsened some time ago, revenues at the Carter stores fell steeply. Many of their customers were simply out of work and didn't need (or couldn't afford) dry cleaning. The Carters actually found themselves giving away some free cleaning services. They started a new program wherein existing customers could get one suit or dress cleaned free each month if they needed it for a job interview.

In the midst of this downturn, the Carters knew they had to get their employment costs under control. The problem was that, realistically, there wasn't much room for cutting staffing in a store. Of course, if a store got very slow, they could double up by having a cleaner/spotter spend some time pressing, or having the manager displace the person at the counter. But if sales only fell 15% to 20% per store, there really wasn't much room for reducing employee head count because each store never employed many people in the first place.

The question, therefore, naturally arose as to whether the Carters could cut their employment expenses without dismissing too many people. Jennifer Carter has several questions for you.

Questions

18-13. Assume that we don't want to terminate any of our employees. What work-scheduling-related changes could we make that would reduce our payrolls by, say, 20% per week but still keep all our employees on board?
18-14. We are currently handling most of our personnel-related activities, such as sign-ons, benefits administration, and appraisals, manually. What specific suggestions would you have for us in terms of using software systems to automate our HR processes?
18-15. Suggest at least five free Internet-based sources we could turn to for helping us to lower our total employment costs.

Translating Strategy into HR Policies and Practices Case*,§

**The overall strategy map on the inside back cover of this text outlines the relationships involved.*

Improving Performance at the Hotel Paris

The New HRIS

The Hotel Paris's competitive strategy is "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy and boost performance by eliciting the required employee behaviors and competencies.

Challenging economic times in the past few years, exacerbated by COVID-19, brought the drawbacks of the Hotel Paris's relatively small size into sharp relief. Large chains like Marriott had vast online reservations capabilities with huge centralized systems that easily and economically handled reservations requests from throughout the world. By comparison, the Hotel Paris still handled reservations much as hotels did 15 years ago, either with separate websites for each of their hotel locations, e-mail, or an 800 number.

Their human resource management information systems were also very basic. Lisa had managed to install several separate information systems, such as for performance appraisals. However, as she discussed one day over lunch with the CFO, the HR systems were not integrated. Therefore, if an employee changed his or her name, for instance, through marriage, people in Lisa's office had to execute all those name changes manually on all the various employee rosters and benefits plans.

This lack of integration was bad enough in boom times, but was worse as the economy soured. The CFO pointed out to her that the amount of money they were spending on human resource management administration per employee was about 30% higher than it was at larger chains such as Marriott. He understood that large size brings economies of scale. But he believed there had to be something

they could do to reduce the cost of administering human resource management.

Lisa's solution was to get the CFO's approval to have several software consulting firms including IBM, Accenture, and Oracle provide proposals for how to integrate the hotel's HR information systems. After getting the CFO's and CEO's approval, they contracted with one vendor and installed the system.

Questions

18-16. Using any benchmark data that you can find, including information from this book, what are some benchmark metrics that Lisa could be using to assess the efficiency of her human resource management operations? To what extent does the Hotel Paris's quality service orientation enter into how Lisa's metrics should compare?

18-17. Throughout this book, we've discussed various specific examples of how human resource management departments have been reducing the cost of delivering their services. Keeping in mind the Hotel Paris's quality service orientation, please list and explain with examples how Lisa Cruz could use at least five of these.

18-18. Focusing only on human resource information systems for a moment, what sorts of packages would you suggest Lisa consider recommending for the Hotel Paris? Why?

18-19. Explain with detailed examples how Lisa can use free online and governmental sources to accomplish at least part of what you propose in your previous answers.

18-20. Give three examples of fee-based online tools you suggest Lisa use.

18-21. Based on what you read in this chapter of Dessler, *Human Resource Management*, do you suggest Lisa use a PEO? Why?

[§]*Written and copyrighted by Gary Dessler, PhD.*

Writing Assignments

18-22. Explain and give at least four examples of how entrepreneurs can use Internet and government tools to support the HR effort.

18-23. This chapter explained that to compete with larger employers, the small business owner should capitalize on familiarity, flexibility, and informality. What does this mean, and how as a small business owner would you do that?

Key Terms

DOL online elaws advisors, 582
FLSA overtime calculator, 582
FLSA hours worked advisor, 582
FLSA overtime security advisor, 582
hazard awareness advisor, 584

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APPENDIX A

Comprehensive Cases

BANDAG AUTOMOTIVE*

Jim Bandag took over his family's auto supply business in 2016, after helping his father, who founded the business, run it for about 10 years. Based in Illinois, Bandag employs about 300 people, and distributes auto supplies (replacement mufflers, bulbs, engine parts, and so on) through two divisions, one that supplies service stations and repair shops, and a second that sells retail auto supplies through five "Bandag Automotive" auto supply stores.

Jim's father, and now Jim, have always endeavored to keep Bandag's organization chart as simple as possible. The company has a full-time controller, managers for each of the five stores, a manager who oversees the distribution division, and Jim Bandag's executive assistant. Jim (along with his father, working part-time) handles marketing and sales.

Jim's executive assistant administers the firm's day-to-day human resource management tasks, but the company outsources most HR activities to others, including an employment agency that does its recruiting and screening, a benefits firm that administers its 401(k) plan, and a payroll service that handles its paychecks. Bandag's human resource management systems consist almost entirely of standardized HR forms purchased from an HR supplies company. These include forms such as application and performance appraisal forms, as well as an "honesty" test Bandag uses to screen the staff that works in the five stores. The company performs informal salary surveys to see what other companies in the area are paying for similar positions, and use these results for awarding annual merit increases (which in fact are more accurately cost-of-living adjustments).

Jim's father took a fairly paternal approach to the business. He often walked around speaking with his employees, finding out what their problems were, and even helping them out with an occasional loan—for instance, when he discovered that one of their children was sick, or for part of a new home down payment. Jim, on the other hand, tends to be more abrupt, and does not enjoy the same warm relationship with the employees as did his father. Jim is not unfair or dictatorial. He's just very focused on improving Bandag's financial performance, and so all his decisions, including his HR-related decisions, generally come down to cutting costs. For example, his knee-jerk reaction is usually to offer fewer days off rather than more, fewer benefits rather than more, and to be less flexible when an employee needs, for instance, a few extra days off because a child is sick.

It's therefore perhaps not surprising that over the past few years Bandag's sales and profits have increased markedly, but that the firm has found itself increasingly enmeshed in HR/equal employment–type issues. Indeed, Jim now finds himself spending a day or two a week addressing HR problems. For example, Henry Jaques, an employee at one of the stores, came to Jim's executive assistant and told her he was "irate" about his recent firing and was probably going to sue. Henry's store manager stated on his last performance appraisal that Henry did the technical aspects of his job well, but that he had "serious problems interacting with his coworkers." He was continually arguing with them, and complaining to the store manager about working conditions. The store manager had told Jim that he had to fire Henry because he was making "the whole place poisonous," and that (although he felt sorry because he'd heard rumors that Henry suffered from some mental illness) he felt he had to go. Jim approved the dismissal.

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Gavin was another problem. Gavin had worked for Bandag for 10 years, the last two as manager of one of the company's five stores. Right after Jim Bandag took over, Gavin told him he had to take a Family and Medical Leave Act medical leave to have hip surgery, and Jim approved the leave. When Gavin returned from leave, Jim told him that his position had been eliminated. Bandag had decided to close his store and open a new, larger store across from a shopping center about a mile away, and had appointed a new manager in Gavin's absence. However, the company did give Gavin a (nonmanagerial) position in the new store as a counter salesperson, at the same salary and with the same benefits as he had before. Even so, "This job is not similar to my old one," Gavin insisted. "It doesn't have nearly as much prestige." His contention is that the FMLA requires that the company bring him back in the same or equivalent position, and that this means a supervisory position, similar to what he had before he went on leave. Jim said no, and they seem to be heading toward litigation.

In another sign of the times at Bandag, the company's controller, Miriam, who had been with the company for about six years, went on pregnancy leave for 12 weeks in 2012 (also under the FMLA), and then received an additional three weeks' leave under Bandag's extended illness days program. Four weeks after she came back, she asked Jim Bandag if she could arrange to work fewer hours per week, and spend about a day per week working out of her home. He refused, and about two months later fired her. Jim Bandag said, "I'm sorry, it's not anything to do with your pregnancy-related requests, but we've got ample reasons to discharge you—your monthly budgets have been several days late, and we've got proof you may have forged documents." She replied, "I don't care what you say your reasons are; you're really firing me because of my pregnancy, and that's illegal."

Jim felt he was on safe ground as far as defending the company for these actions, although he didn't look forward to spending the time and money that he knew it would take to fight each. However, what he learned over lunch from a colleague undermined his confidence about another case that Jim had been sure would be a "slam dunk" for his company. Jim was explaining to his friend that one of Bandag's truck maintenance service people had applied for a job driving one of Bandag's distribution department trucks, and that Jim had turned him down because the worker was deaf. Jim (whose wife has occasionally said of him, "No one has ever accused Jim of being politically correct") was mentioning to his friend the apparent absurdity of a deaf person asking to be a truck delivery person. His friend, who happens to work for UPS, pointed out that the U.S. Court of Appeals for the Ninth Circuit had recently decided that UPS had violated the Americans with Disabilities Act by refusing to consider deaf workers for jobs driving the company's smaller vehicles.

Although Jim's father is semiretired, the sudden uptick in the frequency of such EEO-type issues troubled him, particularly after so many years of labor peace. However, he's not sure what to do about it. Having handed over the reins of the company to his son, he was loath to inject himself back into the company's operational decision making. On the other hand, he was afraid that in the short run these issues were going to drain a great deal of Jim's time and resources, and that in the long run they might be a sign of things to come, with problems like these eventually overwhelming Bandag Automotive. He comes to you, who he knows consults in human resource management, and asks you the following questions.

Questions

1. Given Bandag Automotive's size, and anything else you know about it, should we reorganize the human resource management function, and if so, why and how?
2. What, if anything, would you do to change and/or improve upon the current HR systems, forms, and practices that we now use?
3. Do you think that the employee whom Jim fired for creating what the manager called a poisonous relationship has a legitimate claim against us, and if so, why and what should we do about it?

4. Is it true that we really had to put Gavin back into an equivalent position, or was it adequate to just bring him back into a job at the same salary, bonuses, and benefits as he had before his leave?
5. Miriam, the controller, is basically claiming that the company is retaliating against her for being pregnant, and that the fact that we raised performance issues was just a smokescreen. Do you think the EEOC and/or courts would agree with her, and, in any case, what should we do now?
6. An employee who is deaf has asked us to be one of our delivery people and we turned him down. He's now threatening to sue. What should we do, and why?
7. In the previous 10 years, we've had only one equal employment complaint, and now in the last few years we've had four or five. What should I do about it? Why?

Based generally on actual facts, but Bandag is a fictitious company. Bandag source notes: "The Problem Employee: Discipline or Accommodation?" *Monday Business Briefing*, March 8, 2005; "Employee Says Change in Duties after Leave Violates FMLA," *BNA Bulletin to Management*, January 16, 2007, p. 24; "Manager Fired Days After Announcing Pregnancy," *BNA Bulletin to Management*, January 2, 2007, p. 8; "Ninth Circuit Rules UPS Violated ADA by Barring Deaf Workers from Driving Jobs," *BNA Bulletin to Management*, October 17, 2006, p. 329.

ANGELO'S PIZZA*

Angelo Camero was brought up in the Bronx, New York, and basically always wanted to be in the pizza store business. As a youngster, he would sometimes spend hours at the local pizza store, watching the owner knead the pizza dough, flatten it into a large circular crust, fling it up, and then spread on tomato sauce in larger and larger loops. After graduating from college as a marketing major, he made a beeline back to the Bronx, where he opened his first Angelo's Pizza store, emphasizing its clean, bright interior; its crisp green, red, and white sign; and his all-natural, fresh ingredients. Within five years, Angelo's store was a success, and he had opened three other stores and was considering franchising his concept.

Eager as he was to expand, his four years in business school had taught him the difference between being an entrepreneur and being a manager. As an entrepreneur/small business owner, he knew he had the distinct advantage of being able to personally run the whole operation himself. With just one store and a handful of employees, he could make every decision and watch the cash register, check in the new supplies, oversee the takeout, and personally supervise the service.

When he expanded to three stores, things started getting challenging. He hired managers for the two new stores (both of whom had worked for him at his first store for several years) and gave them only minimal "how to run a store"–type training, on the assumption that, having worked with him for several years, they already knew pretty much everything they needed to know about running a store. However, he was already experiencing human resource management problems, and he knew there was no way he could expand the number of stores he owned, or (certainly) contemplate franchising his idea, unless he had a system in place that he could clone in each new store to provide the managers (or the franchisees) with the necessary management knowledge and expertise to run their stores. Angelo had no training program in place for teaching his store managers how to run their stores. He simply (erroneously, as it turned out) assumed that by working with him they would learn how to do things on the job. Since Angelo had no system in place, the new managers were, in a way, starting off below zero when it came to how to manage a store.

There were several issues that particularly concerned Angelo. Finding and hiring good employees was number one. He'd read the new National Small Business Poll from the National Federation of Independent Business Education Foundation. It found that 71% of small business owners believed that finding qualified employees was "hard." Furthermore, "the search for qualified employees will grow more difficult as

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demographic and education factors" continue to make it more difficult to find employees. Similarly, reading the *Kiplinger Letter* one day, he noticed that just about every type of business couldn't find enough good employees to hire. Small firms were particularly in jeopardy; the *Letter* said that giant firms can outsource many (particularly entry-level) jobs abroad, and larger companies can also afford to pay better benefits and to train their employees. Small firms rarely have the resources or the economies of scale to allow outsourcing or to install the big training programs that would enable them to take untrained new employees and turn them into skilled ones.

Although finding enough employees was his biggest problem, finding enough honest ones scared him even more. Angelo recalled from one of his business school courses that companies in the United States are losing a total of well over $400 billion a year in employee theft. As a rough approximation, that works out to about $9 per employee per day and about $12,000 lost annually for a typical company. Furthermore, it was small companies like Angelo's that were particularly in the crosshairs, because companies with fewer than 100 employees are particularly prone to employee theft. Why are small firms particularly vulnerable? Perhaps they lack experience dealing with the problem. More importantly: Small firms are more likely to have a single person doing several jobs, such as ordering supplies and paying the delivery person. This undercuts the checks and balances managers often strive for to control theft. Furthermore, the risk of stealing goes up dramatically when the business is largely based on cash. In a pizza store, many people come in and buy just one or two slices and a cola for lunch, and almost all pay with cash, not credit cards.

And, Angelo was not just worried about someone stealing cash. They can steal your whole business idea, something he learned from painful experience. He had been planning to open a store in what he thought would be a particularly good location, and was thinking of having one of his current employees manage the store. Instead, it turned out that this employee was, in a manner of speaking, stealing Angelo's brain: what Angelo knew about customers, suppliers, where to buy pizza dough, where to buy tomato sauce, how much everything should cost, how to furnish the store, where to buy ovens, store layout—everything. This employee soon quit and opened up his own pizza store, not far from where Angelo had planned to open his new store.

That he was having trouble hiring good employees, there was no doubt. The restaurant business is particularly brutal when it comes to turnover. Many restaurants turn over their employees at a rate of 200% to 300% per year—so every year, each position might have a series of two to three employees filling it. As Angelo said, "I was losing two to three employees a month," adding, "We're a high-volume store, and while we should have about six employees per store [to fill all the hours in a week], we were down to only three or four, so my managers and I were really under the gun."

The problem was bad at the hourly employee level: "We were churning a lot at the hourly level," said Angelo. "Applicants would come in, my managers or I would hire them and not spend much time training them, and the good ones would leave in frustration after a few weeks, while often it was the bad ones who'd stay behind." But in the last two years, Angelo's three company-owned stores also went through a total of three store managers—"They were just blowing through the door," as Angelo put it, in part because, without good employees, their workday was brutal. As a rule, when a small business owner or manager can't find enough employees (or an employee doesn't show up for work), about 80% of the time the owner or manager does the job himself or herself. So, these managers often ended up working seven days a week, 10 to 12 hours a day, and many just burned out in the end. One night, working three jobs himself with customers leaving in anger, Angelo decided he'd never just hire someone because he was desperate again, but would start doing his hiring more rationally.

Angelo knew he should have a more formal screening process. As he said, "If there's been a lesson learned, it's much better to spend time up front screening out candidates who don't fit than to hire them and have to put up with their ineffectiveness." He also knew that he could identify many of the traits that his employees needed. For example, he knew that not everyone has the temperament to be a server (he has a small pizza/Italian restaurant in the back of his main store). As Angelo said, "I've

seen personalities that were off the charts in assertiveness or overly introverted, traits that obviously don't make a good fit for a server."

As a local business, Angelo recruits by placing help wanted ads in two local newspapers, and he's been "shocked" at some of the responses and experiences he's had in response to the ads. Many of the applicants left voicemail messages (Angelo or the other workers in the store were too busy to answer), and some applicants Angelo "just axed" on the assumption that people without good telephone manners wouldn't have very good manners in the store, either. He also quickly learned that he had to throw out a very wide net, even if hiring only one or two people. Many people, as noted, he eliminated from consideration because of the messages they left, and about half the people he scheduled to come in for interviews didn't show up. He'd taken courses in human resource management, so (as he said) "I should know better," but he hired people based almost exclusively on a single interview (he occasionally made a feeble attempt to check references). In total, his HR approach was obviously not working. It wasn't producing enough good recruits, and the people he did hire were often problematic.

What was he looking for? Service-oriented courteous people, for one. For example, he'd hired one employee who used profanity several times, including once in front of a customer. On that employee's third day, Angelo had to tell her, "I think Angelo's isn't the right place for you," and he fired her. As Angelo said, "I felt bad, but also knew that everything I have is on the line for this business, so I wasn't going to let anyone run this business down." Angelo wants reliable people (who'll show up on time), honest people, and people who are flexible about switching jobs and hours as required. He calls his management style "trust and track." "I coach them and give them goals, and then carefully track results."

Angelo's Pizza business has only the most rudimentary human resource management system. Angelo bought several application forms at a local Office Depot, and rarely uses other forms of any sort. He uses his personal accountant for reviewing the company's books, and Angelo himself computes each employee's paycheck at the end of the week and writes the checks. Training is entirely on-the-job. Angelo personally trained each of his employees. For those employees who go on to be store managers, he assumes that they are training their own employees the way that Angelo trained them (for better or worse, as it turns out). Angelo pays "a bit above" prevailing wage rates (judging by other help wanted ads), but probably not enough to make a significant difference in the quality of employees whom he attracts. If you asked Angelo what his reputation is as an employer, Angelo, being a candid and forthright person, would probably tell you that he is a supportive but hard-nosed employer who treats people fairly, but whose business reputation may suffer from disorganization stemming from inadequate organization and training. He approaches you to ask you several questions.

Questions

8. My strategy is to (hopefully) expand the number of stores and eventually franchise, while focusing on serving only high-quality fresh ingredients. What are three specific human resource management implications of my strategy (including specific policies and practices)?
9. Identify and briefly discuss five specific human resource management errors that I'm currently making.
10. Develop a structured interview form that we can use for hiring (1) store managers, (2) wait staff, and (3) counter people/pizza makers.
11. Based on what you know about Angelo's, and what you know from having visited pizza restaurants, write a one-page outline showing specifically how you think Angelo's should go about selecting employees.

Based generally on actual facts, but Angelo's Pizza is a fictitious company. Angelo's Pizza source notes: Dino Berta, "People Problems: Keep Hiring from Becoming a Crying Game," *Nation's Business News*, 36, no. 20, May 20, 2002, pp. 72–74; Ellen Lyon, "Hiring, Personnel Problems Can Challenge Entrepreneurs," *Patriot-News*, October 12, 2004; Rose Robin Pedone, "Businesses' $400 Billion Theft Problem," *Long Island Business News*, 27, July 6, 1998, pp. 1B–2B; "Survey Shows Small-Business Problems with Hiring, Internet," *Providence Business News*, 16, September 10, 2001, pp. 1B; "Finding Good Workers Is Posing a Big Problem as Hiring Picks Up," *Kiplinger Letter*, 81, February 13, 2004; Ian Mount, "A Pizzeria Owner Learns the Value of Watching the Books," *The New York Times*, October 25, 2012, p. B8.

ALPHABET (GOOGLE)*

Fortune magazine named Google one of the best companies to work for, and there is little doubt why. Although its parent company Alphabet has been reducing its benefits recently, benefits it offers still include free shuttles equipped with Wi-Fi to pick up and drop off employees from San Francisco Bay Area locations, unlimited sick days, annual all-expense-paid ski trips, free gourmet meals, five on-site free doctors, $2,000 bonuses for referring a new hire, free flu shots, a giant lap pool, on-site oil changes, on-site car washes, volleyball courts, TGIF parties, free on-site washers and dryers (with free detergent), Ping-Pong and foosball tables, and free famous people lectures. For many people, it's the gourmet meals and snacks that make Google stand out. For example, one human resources director loves the Irish oatmeal with fresh berries at the company's Plymouth Rock Cafe, near Google's "people operations" group. "I sometimes dream about it," she says. Engineer Jan Fitzpatrick loves the raw bar at Google's Tapis restaurant, down the road on the Google campus. Then, of course, there are the stock options—each new employee gets (sometimes thousands of) options to buy Google shares. In fact, dozens of early Google employees ("Googlers") are already multimillionaires thanks to Google stock. The recession several years ago did prompt Google and other firms to cut back on some of these benefits (cafeteria hours are shorter today, for instance), but Google still pretty much leads the benefits pack.

For their part, Googlers share certain traits. They tend to be super smart, team oriented (teamwork is the norm, especially for big projects), and driven. *Fortune* describes them as people who "almost universally" see themselves as the most interesting people on the planet, and who are happy-go-lucky on the outside, but type A—highly intense and goal directed—on the inside. They're also super-hardworking (which makes sense, since it's not unusual for engineers to be in the hallways at 3 A.M. debating some new mathematical solution to a Google search problem). They're so team oriented that when working on projects, it's not unusual for Google team members to give up their larger, more spacious offices and to crowd into a small conference room, where they can "get things done." Historically, Googlers generally graduate with great grades from the best universities, including Stanford, Harvard, and MIT. For many years, Google wouldn't even consider hiring someone with less than a 3.7 average—while also probing deeply into the why behind any B grades. Google also doesn't hire lone wolves, but wants people who work together and people who also have diverse interests (narrow interests or skills are a turnoff at Google). Google also wants people with growth potential. The company is expanding so fast that it needs to hire people who are capable of being promoted multiple times—it's only, the company says, by hiring such overqualified people that it can be sure that the employees will be able to keep up as Google and their own departments expand.

The starting salaries are highly competitive. New engineering grads can reportedly start at about $214,000 per year, including $139,000 in base pay, and $75,000 in additional pay. Experienced software engineers can reportedly earn well over $240,000 per year, including base salary, stock options, and bonus. Most recently, Google had about 156,000 full-time employees, up from its beginnings with just three employees in a rented garage.

Of course, in a company that's grown from 3 employees to 156,000 and from zero value to hundreds of billions of dollars, it may be quibbling to talk about "problems," but there's no doubt that such rapid growth does confront Google's management, and particularly its "people operations" group, with some big challenges. Let's look at these.

For one, Google, as noted earlier, is a 24-hour operation, and with engineers and others frequently pulling all-nighters to complete their projects, the company needs to provide a package of services and financial benefits that supports that kind of lifestyle, and that helps its employees maintain an acceptable work–life balance.

As another challenge, Google's enormous financial success is a two-edged sword. Although Google usually wins the recruitment race when it comes to competing for new employees against competitors like Microsoft or Facebook, Google does need

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some way to stem a rising tide of retirements. Most Googlers are still in their 20s and 30s, but many have become so wealthy from their Google stock options that they can afford to retire. One 27-year-old engineer received a million-dollar founder's award for her work on the program for searching desktop computers, and wouldn't think of leaving "except to start her own company." Similarly, a former engineering vice president retired (with his Google stock profits) to pursue his love of astronomy. The engineer who dreamed up Gmail retired at the age of 30.

Another challenge is that the work involves not only long hours but can also be very tense. Google is a very numbers-oriented environment. For example, consider a typical weekly Google user interface design meeting. Seated around a conference table are about a dozen Googlers, tapping on laptops. During the 2-hour meeting, the head of search products needs to evaluate various design proposals, ranging from minor tweaks to a new product's entire layout. She's previously given each presentation an allotted amount of time, and a large digital clock on the wall ticks off the seconds. The presenters must quickly present their ideas, but also handle questions such as "what do users do if the tab is moved from the side of the page to the top?" Furthermore, it's all about the numbers—no one at Google would ever say, for instance, "the tab looks better in red"—you need to prove your point. Presenters must come armed with usability experiment results, showing, for instance, that a certain percentage preferred red or some other color. While the presenters are answering these questions as quickly as possible, the digital clock is ticking, and when it hits the allotted time, the presentation must end, and the next team steps up to present. It is a tough and tense environment, and Googlers must have done their homework.

Growth can also undermine the "outlaw band that's changing the world" culture that fostered the services that made Google famous. Even cofounder Sergey Brin agrees that Google risks becoming less "zany" as it grows. To paraphrase one of its top managers, the hard part of any business is keeping that original innovative, small business feel even as the company grows. Several years ago (in 2015) Google appointed Sundar Pichai its new CEO.

Creating the right culture is especially challenging now that Google is truly global. For example, Google works hard to provide the same employee benefits every place it does business around the world, but it can't exactly match its benefits in every country because of international laws and international taxation issues. Yet offering the same benefits everywhere is more important than it might initially appear. All those benefits make life easier for Google staff, and help them achieve a work–life balance. Achieving the right work–life balance is the centerpiece of Google's culture, but this also becomes more challenging as the company grows. On the one hand, Google expects all of its employees to work super hard; on the other hand, it realizes that it needs to help them maintain a healthy balance.

As one manager says, Google acknowledges "that we work hard but that work is not everything."

Recruitment is another challenge. While Google certainly doesn't lack applicants, attracting the right applicants is crucial if Google is to continue to grow successfully. Working at Google requires a special set of traits, and screening employees is easier if it recruits the right people to begin with. For instance, Google needs to attract people who are very smart, love to work, have fun, can handle the stress, and who also have outside interests and flexibility.

As the company grows internationally, it also faces the considerable challenge of recruiting and building staff overseas. For example, Google introduced a new vertical market–based structure across Europe to attract more business advertisers to its search engine. (By vertical market–based structure, Google means focusing on key vertical industry sectors such as travel, retail, automotive, and technology.) To build these industry groupings abroad from scratch, Google promoted its former head of its U.S. financial services group to be the vertical markets director for Europe; he moved there several years ago. Google then had to find heads for each of its vertical industry groups for all of its key European territories. Each of these vertical market heads then have to educate their market sectors (retailing, travel, and so on) so Google can attract new advertisers. Google already has offices around the world.

However, probably the biggest challenge Google faces is evolving its employee selection system, given that the company must hire thousands of people per year. When Google started in business, job candidates typically suffered through a dozen or more in-person interviews, and the standards were so high that even applicants with years of great work experience often got turned down if they had just average college grades. But more recently, even Google's cofounders acknowledged to security analysts that setting such an extraordinarily high bar for hiring was holding back Google's expansion. For Google's early years, one of the company's cofounders interviewed nearly every job candidate before he or she was hired, and even today one of them still reviews the qualifications of everyone before he or she gets a final offer.

The experience of one candidate illustrates what Google was up against. A 24-year-old is interviewed for a corporate communications job at Google. Google first made contact with the candidate in May, and then, after two phone interviews, invited him to headquarters. There he had separate interviews with about six people and was treated to lunch in a Google cafeteria. They also had him turn in several "homework" assignments, including a personal statement and a marketing plan. In August, Google invited the candidate back for a second round, which it said would involve another four or five interviews. In the meantime, he decided he'd rather work at a start-up, and accepted another job at a new web-based instant messaging provider.

Google's head of "people operations" says that Google is trying to strike the right balance between letting Google and the candidate get to know each other while also moving quickly. To that end, Google administered a survey to all Google's current employees in an effort to identify the traits that correlate with success at Google. In the survey, employees responded to questions relating to about 300 variables, including their performance on standardized tests, how old they were when they first used a computer, and how many foreign languages they speak. The Google survey team then went back and compared the answers against the 30 or 40 job performance factors they keep for each employee. They thereby identified clusters of traits that Google might better focus on during the hiring process. Google also moved from the free-form interviews it used in the past to a more structured process.

Questions

12. What do you think of the idea of Google correlating personal traits from the employees' answers on the survey to their performance, and then using that as the basis for screening job candidates? In other words, is it or is it not a good idea? Please explain your answer.
13. The benefits that Google pays obviously represent an enormous expense. Based on what you know about Google and on what you read in this book, how would you defend all these benefits if you're making a presentation to the security analysts who were analyzing Google's performance?
14. If you wanted to hire the brightest people around, how would you go about recruiting and selecting them? How does your proposed approach compare with how Google actually does it (based on this case and anything else you recall reading about Google in this book)?
15. To support its growth and expansion strategy, Google wants (among other traits) people who are very bright and who work hard, often round-the-clock, and who are flexible and maintain a decent work–life balance. List five specific HR policies or practices that you think Google has implemented or should implement to support its strategy, and explain your answer.
16. What sorts of factors do you think Google will have to take into consideration as it tries transferring its culture and reward systems and way of doing business to its operations abroad?
17. Given the sorts of values and culture Google cherishes, briefly describe four specific activities you suggest it pursue during new-employee orientation.

Source: Notes for Google: "Google Brings Vertical Structure to Europe," *New Media Age*, August 4, 2005, p. 2; Debbie Lovewell, "Employer Profile—Google: Searching for Talent," *Employee Benefits*, October 10, 2005, p. 66;

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MUFFLER MAGIC*

Muffler Magic is a fast-growing chain of 25 automobile service centers in Nevada. Originally started 20 years ago as a muffler repair shop by Ronald Brown, the chain expanded rapidly to new locations, and as it did so Muffler Magic also expanded the services it provided, from muffler replacement to oil changes, brake jobs, and engine repair. Today, one can bring an automobile to a Muffler Magic shop for basically any type of service, from tires to mufflers to engine repair.

Auto service is a tough business. The shop owner is basically dependent upon the quality of the service people he or she hires and retains, and the most qualified mechanics find it easy to pick up and leave for a job paying a bit more at a competitor down the road. It's also a business in which productivity is very important. The single largest expense is usually the cost of labor. Auto service dealers generally don't just make up the prices that they charge customers for various repairs; instead, they charge based on standardized industry rates for jobs like changing spark plugs or repairing a leaky radiator. Therefore, if someone brings a car in for a new alternator and the standard number of hours for changing the alternator is an hour, but it takes the mechanic 2 hours, the service center's owner may end up making less profit on the transaction.

Quality is a persistent problem as well. For example, "rework" has recently been a problem at Muffler Magic. A customer recently brought her car to a Muffler Magic to have the car's brake pads replaced, which the service center did for her. Unfortunately, when she left she drove only about two blocks before she discovered that she had no brake power at all. It was simply fortuitous that she was going so slowly she was able to stop her car by slowly rolling up against a parking bumper. It subsequently turned out that the mechanic who replaced the brake pads had failed to properly tighten a fitting on the hydraulic brake tubes and the brake fluid had run out, leaving the car with no braking power. In a similar problem the month before that, a (different) mechanic replaced a fan belt, but forgot to refill the radiator with fluid; that customer's car overheated before he got four blocks away, and Muffler Magic had to replace the whole engine. Of course problems like these not only diminish the profitability of the company's profits, but, repeated many times over, have the potential for ruining Muffler Magic's word-of-mouth reputation.

Organizationally, Muffler Magic employs about 300 people, and Ron runs his company with eight managers, including himself as president, a controller, a purchasing director, a marketing director, and the human resource manager. He also has three regional managers to whom the eight or nine service center managers in each area of Nevada report. Over the past two years, as the company has opened new service centers, company-wide profits have diminished rather than increased. In part, these

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diminishing profits probably reflect the fact that Ron Brown has found it increasingly difficult to manage his growing operation. ("Your reach is exceeding your grasp" is how Ron's wife puts it.)

The company has only the most basic HR systems in place. It uses an application form that the human resource manager modified from one that he downloaded from the web, and the standard employee status change request forms, sign-on forms, I-9 forms, and so on, that it purchased from a human resource management supply house. Training is entirely on-the-job. Muffler Magic expects the experienced technicians that it hires to come to the job fully trained; to that end, the service center managers generally ask candidates for these jobs basic behavioral questions that hopefully provide a window into these applicants' skills. However, most of the other technicians hired to do jobs like rotating tires, fixing brake pads, and replacing mufflers are untrained and inexperienced. They are to be trained by either the service center manager or by more experienced technicians, on-the-job.

Ron Brown faces several HR-type problems. One, as he says, is that he faces the "tyranny of the immediate" when it comes to hiring employees. Although it's fine to say that he should be carefully screening each employee and checking his or her references and work ethic, from a practical point of view, with 25 centers to run, the centers' managers usually just hire anyone who seems to be breathing, as long as he or she can answer some basic interview questions about auto repair, such as, "What do you think the problem is if a 2012 Camry is overheating, and what would you do about it?"

Employee safety is also a problem. An automobile service center may not be the most dangerous type of workplace, but it is potentially dangerous. Employees are dealing with sharp tools, greasy floors, greasy tools, extremely hot temperatures (for instance, on mufflers and engines), and fast-moving engine parts including fan blades. There are some basic things that a service manager can do to ensure more safety, such as insisting that all oil spills be cleaned up immediately. However, from a practical point of view, there are few ways to get around many of the problems—such as when the technician must check out an engine while it is running.

With Muffler Magic's profits going down instead of up, Brown's human resource manager has taken the position that the main problem is financial. As he says, "You get what you pay for" when it comes to employees, and if you compensate technicians better than your competitors do, then you get better technicians, ones who do their jobs better and stay longer with the company—and then profits will rise. So, the HR manager scheduled a meeting between himself, Ron Brown, and a professor of business who teaches compensation management at a local university. The HR manager has asked this professor to spend about a week looking at each of the service centers, analyzing the situation, and coming up with a compensation plan that will address Muffler Magic's quality and productivity problems. At this meeting, the professor makes three basic recommendations for changing the company's compensation policies.

Number one, she says that she has found that Muffler Magic suffers from what she calls "presenteeism"—in other words, employees drag themselves into work even when they're sick, because the company does not pay them if they are out; the company offers no sick days. In just a few days the professor couldn't properly quantify how much Muffler Magic is losing to presenteeism. However, from what she could see at each shop, there are typically one or two technicians working with various maladies like the cold or flu, and it seemed to her that each of these people was probably really only working about half of the time (although they were getting paid for the whole day). So, for 25 service centers per week, Muffler Magic could well be losing 125 or 130 personnel days per week of work. The professor suggests that Muffler Magic start allowing everyone to take three paid sick days per year, a reasonable suggestion. However, as Ron Brown points out, "Right now, we're only losing about half a day's pay for each employee who comes in and who works unproductively; with your suggestion, won't we lose the whole day?" The professor says she'll ponder that one.

Second, the professor recommends putting the technicians on a skill-for-pay plan. Basically, she suggests the following. Give each technician a letter grade (A through E)

based upon that technician's particular skill level and abilities. An "A" technician is a team leader and needs to show that he or she has excellent diagnostic troubleshooting skills, and the ability to supervise and direct other technicians. At the other extreme, an "E" technician would typically be a new apprentice with little technical training. The other technicians fall in between those two levels, based on their individual skills and abilities.

In the professor's system, the "A" technician or team leader would assign and supervise all work done within his or her area but generally not do any mechanical repairs himself or herself. The team leader does the diagnostic troubleshooting, supervises and trains the other technicians, and test drives the car before it goes back to the customer. Under this plan, every technician receives a guaranteed hourly wage within a certain range, for instance:

A tech = $25 – $30 an hour
B tech = $20 – $25 an hour
C tech = $15 – $20 an hour
D tech = $10 – $15 an hour
E tech = $8 – $10 an hour

Third, to directly address the productivity issue, the professor recommends that each service manager calculate each technician-team's productivity at the end of each day and at the end of each week. She suggests posting the running productivity total conspicuously for daily viewing. Then, the technicians as a group get weekly cash bonuses based upon their productivity. To calculate productivity, the professor recommends dividing the total labor hours billed by the total labor hours paid to technicians; in other words, total labor hours billed *divided by* total hours paid to technicians.

Having done some homework, the professor says that the national average for labor productivity is currently about 60%, and that only the best-run service centers achieve 85% or greater. By her rough calculations, Muffler Magic was attaining about industry average (about 60%—in other words, they were billing for only about 60 hours for each 100 hours that they actually had to pay technicians to do the jobs). (Of course, this was not entirely the technicians' fault. Technicians get time off for breaks and for lunch, and if a particular service center simply didn't have enough business on a particular day or during a particular week, then several technicians may well sit around idly waiting for the next car to come in.) The professor recommends setting a labor efficiency goal of 80% and posting each team's daily productivity results in the workplace to provide them with additional feedback. She recommends that if at the end of a week the team is able to boost its productivity ratio from the current 60% to 80%, then that team would get an additional 10% weekly pay bonus. After that, for every 5% boost of increased productivity above 80%, technicians would receive an additional 5% weekly bonus. So, if a technician's normal weekly pay is $400, that employee would receive an extra $40 at the end of the week when his team moves from 60% productivity to 80% productivity.

After the meeting, Ron Brown thanked the professor for her recommendations and told her he would think about it and get back to her. After the meeting, on the drive home, Ron was pondering what to do. He had to decide whether to institute the professor's sick leave policy, and whether to implement the professor's incentive and compensation plan. Before implementing anything, however, he wanted to make sure he understood the context in which he was making his decision. For example, did Muffler Magic really have an incentive pay problem, or were the problems more broad? Furthermore, how, if at all, would the professor's incentive plan impact the quality of the work that the teams were doing? And should the company really start paying employees for sick days? Ron Brown had a lot to think about.

Questions

18. Write a one-page summary outline listing three or four recommendations you would make with respect to each HR function (recruiting, selection, training, and so on) that you think Ron Brown should be addressing with his HR manager.

19. Develop a 10-question structured interview form Ron Brown's service center managers can use to interview experienced technicians.
20. If you were Ron Brown, would you implement the professor's recommendation addressing the presenteeism problem—in other words, start paying for sick days? Why or why not?
21. If you were advising Ron Brown, would you recommend that he implement the professor's skill-based pay and incentive pay plan as is? Why? Would you implement it with modifications? If you would modify it, please be specific about what you think those modifications should be, and why.

Based generally on actual facts, but Muffler Magic is a fictitious company. This case is based largely on information in Drew Paras, "The Pay Factor: Technicians' Salaries Can Be the Largest Expense in a Server Shop, as Well as the Biggest Headache. Here's How One Shop Owner Tackled the Problem," *Motor Age*, November 2003, pp. 76–79; see also Jennifer Pellet, "Health Care Crisis," *Chief Executive*, June 2004, pp. 56–61; "Firms Press to Quantify, Control Presenteeism," *Employee Benefits*, December 1, 2002.

BP TEXAS CITY*

When British Petroleum's (BP) Horizon oil rig exploded in the Gulf of Mexico in 2010, it triggered tragic reminders for experts in the safety community. In March 2005, an explosion and fire at BP's Texas City, Texas, refinery killed 15 people and injured 500 people in the worst U.S. industrial accident in more than 10 years. That disaster triggered three investigations: one internal investigation by BP, one by the U.S. Chemical Safety Board, and an independent investigation chaired by former U.S. Secretary of State James Baker and an 11-member panel that was organized at BP's request.

To put the results of these three investigations into context, it's useful to understand that under its current management, BP had pursued, for the past 10 or so years before the Texas City explosion, a strategy emphasizing cost-cutting and profitability. The basic conclusion of the investigations was that cost-cutting helped compromise safety at the Texas City refinery. It's useful to consider each investigation's findings.

The Chemical Safety Board's (CSB) investigation, according to Carol Merritt, the board's chair, showed that "BP's global management was aware of problems with maintenance, spending, and infrastructure well before March 2005." Apparently, faced with numerous earlier accidents, BP did make some safety improvements. However, it focused primarily on emphasizing personal employee safety behaviors and procedural compliance, and thereby reducing safety accident rates. The problem (according to the CSB) was that "catastrophic safety risks remained." For example, according to the CSB, "unsafe and antiquated equipment designs were left in place, and unacceptable deficiencies in preventive maintenance were tolerated." Basically, the CSB found that BP's budget cuts led to a progressive deterioration of safety at the Texas City refinery. Said Merritt, "In an aging facility like Texas City, it is not responsible to cut budgets related to safety and maintenance without thoroughly examining the impact on the risk of a catastrophic accident."

Looking at specifics, the CSB said that a 2004 internal audit of 35 BP business units, including Texas City (BP's largest refinery), found significant safety gaps they all had in common, including, for instance, a lack of leadership competence, and "systemic underlying issues" such as a widespread tolerance of noncompliance with basic safety rules and poor monitoring of safety management systems and processes. Ironically, the CSB found that BP's accident prevention effort at Texas City had achieved a 70% reduction in worker injuries in the year before the explosion. Unfortunately, this simply meant that individual employees were having fewer accidents. The larger, more fundamental problem was that the potentially explosive situation inherent in the depreciating machinery remained.

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The CSB found that the Texas City explosion followed a pattern of years of major accidents at the facility. In fact, there had apparently been an average of one employee death every 16 months at the plant for the last 30 years. The CSB found that the equipment directly involved in the most recent explosion was an obsolete design already phased out in most refineries and chemical plants, and that key pieces of its instrumentation were not working. There had also been previous instances where flammable vapors were released from the same unit in the 10 years prior to the explosion. In 2003, an external audit had referred to the Texas City refinery's infrastructure and assets as "poor" and found what it referred to as a "checkbook mentality," one in which budgets were not sufficient to manage all the risks. In particular, the CSB found that BP had implemented a 25% cut on fixed costs between 1998 and 2000 and that this adversely impacted maintenance expenditures and net expenditures, and refinery infrastructure. Going on, the CSB found that in 2004, there were three major accidents at the refinery that killed three workers.

BP's own internal report concluded that the problems at Texas City were not of recent origin, and instead were years in the making. It said BP was taking steps to address them. Its investigation found "no evidence of anyone consciously or intentionally taking actions or making decisions that put others at risk." Said BP's report, "The underlying reasons for the behaviors and actions displayed during the incident are complex, and the team has spent much time trying to understand them—it is evident that they were many years in the making and will require concerted and committed actions to address." BP's report concluded that there were five underlying causes for the massive explosion:

- A working environment had eroded to one characterized by resistance to change, and a lack of trust.
- Safety, performance, and risk-reduction priorities had not been set and consistently reinforced by management.
- Changes in the "complex organization" led to a lack of clear accountabilities and poor communication.
- A poor level of hazard awareness and understanding of safety resulted in workers accepting levels of risk that were considerably higher than at comparable installations.
- Adequate early warning systems for problems were lacking, and there were no independent means of understanding the deteriorating standards at the plant.

The report from the BP-initiated but independent 11-person panel chaired by former U.S. Secretary of State James Baker contained specific conclusions and recommendations. The Baker panel looked at BP's corporate safety oversight, the corporate safety culture, and the process safety management systems at BP at the Texas City plant as well as at BP's other refineries.

Basically, the Baker panel concluded that BP had not provided effective safety process leadership and had not established safety as a core value at the five refineries it looked at (including Texas City).

Like the CSB, the Baker panel found that BP had emphasized personal safety in recent years and had in fact improved personal safety performance, but had not emphasized the overall safety process, thereby mistakenly interpreting "improving personal injury rates as an indication of acceptable process safety performance at its U.S. refineries." In fact, the Baker panel went on, by focusing on these somewhat misleading improving personal injury rates, BP created a false sense of confidence that it was properly addressing process safety risks. It also found that the safety culture at Texas City did not have the positive, trusting, open environment that a proper safety culture required. The Baker panel's other findings included the following.

- BP did not always ensure that adequate resources were effectively allocated to support or sustain a high level of process safety performance.
- BP's refinery personnel are "overloaded" by corporate initiatives.
- Operators and maintenance personnel work high rates of overtime.
- BP tended to have a short-term focus and its decentralized management system and entrepreneurial culture delegated substantial discretion to refinery plant

managers "without clearly defining process safety expectations, responsibilities, or accountabilities."
- There was no common, unifying process safety culture among the five refineries.
- The company's corporate safety management system did not make sure there was timely compliance with internal process safety standards and programs.
- BP's executive management either did not receive refinery-specific information that showed that process safety deficiencies existed at some of the plants, or did not effectively respond to any information it did receive.

The Baker panel made several safety recommendations for BP, including the following.

1. The company's corporate management must provide leadership on process safety.
2. The company should establish a process safety management system that identifies, reduces, and manages the process safety risks of the refineries.
3. The company should make sure its employees have an appropriate level of process safety knowledge and expertise.
4. The company should involve "relevant stakeholders" in developing a positive, trusting, and open process safety culture at each refinery.
5. BP should clearly define expectations and strengthen accountability for process safety performance.
6. BP should better coordinate its process safety support for the refining line organization.
7. BP should develop an integrated set of leading and lagging performance indicators for effectively monitoring process safety performance.
8. BP should establish and implement an effective system to audit process safety performance.
9. The company's board should monitor the implementation of the panel's recommendations and the ongoing process safety performance of the refineries.
10. BP should transform itself into a recognized industry leader in process safety management.[1]

In making its recommendations, the panel singled out the company's chief executive at the time, Lord Browne, by saying, "In hindsight, the panel believes if Browne had demonstrated comparable leadership on and commitment to process safety [as he did for responding to climate change] that would have resulted in a higher level of safety at refineries."

Overall, the Baker panel found that BP's top management had not provided "effective leadership" on safety. It found that the failings went to the very top of the organization, to the company's chief executive, and to several of his top lieutenants. The Baker panel emphasized the importance of top management commitment, saying, for instance, that "it is imperative that BP leadership set the process safety tone at the top of the organization and establish appropriate expectations regarding process safety performance." It also said BP "has not provided effective leadership in making certain its management and U.S. refining workforce understand what is expected of them regarding process safety performance."

Lord Browne, the chief executive, stepped down about a year after the explosion. About the same time, some BP shareholders were calling for the company's executives and board directors to have their bonuses more closely tied to the company's safety and environmental performance in the wake of Texas City. In October 2009, OSHA announced it was filing the largest fine in its history for this accident, for $87 million, against BP. One year later, BP's Horizon oil rig in the Gulf of Mexico exploded, taking 11 lives. In September 2014, the U.S. District judge presiding over negligence claims in the ensuing case found BP guilty of gross negligence, basically reckless and extreme behavior. BP subsequently settled the case for about $20 billion, although even in 2022 BP was still engaged in hundreds of other lawsuits over the disaster.

[1]These findings and the following suggestions are based on "BP Safety Report Finds Company's Process Safety Culture Ineffective," *Global Refining & Fuels Report*, January 17, 2007.

Questions

22. The text defines ethics as "the principles of conduct governing an individual or a group," and specifically as the standards one uses to decide what his or her conduct should be. To what extent do you believe that what happened at BP is as much a breakdown in the company's ethical systems as it is in its safety systems, and how would you defend your conclusion?
23. Are the Occupational Safety and Health Administration's standards, policies, and rules aimed at addressing problems like the ones that apparently existed at the Texas City plant? If so, how would you explain the fact that problems like these could have continued for so many years?
24. Since there were apparently at least three deaths in the year prior to the major explosion, and an average of about one employee death per 16 months for the previous 10 years, how would you account for the fact that mandatory OSHA inspections missed these glaring sources of potential catastrophic events?
25. The text lists numerous suggestions for "how to prevent accidents." Based on what you know about the Texas City explosion, what do you say Texas City tells you about the most important three steps an employer can take to prevent accidents?
26. Based on what you learned in Chapter 16, would you make any additional recommendations to BP over and above those recommendations made by the Baker panel and the CSB? If so, what would those recommendations be?
27. Explain specifically how strategic human resource management at BP seems to have supported the company's broader strategic aims. What does this say about the advisability of always linking human resource strategy to a company's strategic aims?

Source: Notes for BP Texas City: Sheila McNulty, "BP Knew of Safety Problems, Says Report," *Financial Times*, October 31, 2006, p. 1; "CBS: Documents Show BP Was Aware of Texas City Safety Problems," *World Refining & Fuels Today*, October 30, 2006; "BP Safety Report Finds Company's Process Safety Culture Ineffective," *Global Refining & Fuels Report*, January 17, 2007; "BP Safety Record Under Attack," *Europe Intelligence Wire*, January 17, 2007; Mark Hofmann, "BP Slammed for Poor Leadership on Safety, Oil Firm Agrees to Act on Review Panel's Recommendations," *Business Intelligence*, January 22, 2007, p. 3; "Call for Bonuses to Include Link with Safety Performance," *Guardian*, January 18, 2007, p. 24; www.bp.com/genericarticle.do?categoryId=9005029&contentId=7015905, accessed July 12, 2009; Steven Greenhouse, "BP Faces Record Fine for '05 Blast," *The New York Times*, October 30, 2009, pp. 1, 6; Kyle W. Morrison, "Blame to Go Around," *Safety & Health*, 183, no. 3, March 2011, p. 40; Ed Crooks, "BP Had Tools to End Spill Sooner, Court Told," www.ft.com/cms/s/0/40d7b076-2ae8-11e3-8fb8-00144feab7de.html?ftcamp=published_links%2Frss%2Fhome_uk%2Ffeed%2F%2Fproduct#axzz2gZshHFOc, accessed October 2, 2013; Daniel Gilbert and Justin Scheck, "Judge Hammers BP for Gulf Disaster," *The Wall Street Journal*, September 5, 2014, pp. B1, B2; https://www.fox10tv.com/2022/07/08/12-years-later-bp-still-fighting-hundreds-lawsuits-over-deepwater-horizon-spill/, and https://www.noaa.gov/explainers/deepwater-horizon-oil-spill-settlements-where-money-went, both accessed January 7, 2023.

GLOSSARY

"mixed-motive" case A discrimination allegation case in which the employer argues that the employment action taken was motivated not by discrimination, but by some nondiscriminatory reason such as ineffective performance.

4/5ths rule Federal agency rule that a protected group member selection rate less than 80% (4/5ths) of that for the group with the highest rate is evidence of adverse impact.

401(k) plan A defined contribution plan based on section 401(k) of the Internal Revenue Code.

action learning A training technique by which management trainees are allowed to work full-time analyzing and solving problems in other departments.

adaptability screening A process that aims to assess the assignees' (and spouses') probable success in handling a foreign transfer.

adverse impact The overall impact of employer practices that result in significantly higher percentages of members of minority groups and other protected groups being rejected for employment, placement, or promotion.

affirmative action Steps that are taken for the purpose of eliminating the present effects of past discrimination.

Age Discrimination in Employment Act of 1967 (ADEA) The act prohibiting arbitrary age discrimination and specifically protecting individuals over 40 years old.

agency shop A form of union security in which employees who do not belong to the union must still pay union dues on the assumption that union efforts benefit all workers.

alternation ranking method Ranking employees from best to worst on a particular trait, choosing highest, then lowest, until all are ranked.

alternative dispute resolution or ADR program Grievance procedure that provides for binding arbitration as the last step.

alternative staffing The use of nontraditional recruitment sources.

Americans with Disabilities Act (ADA) The act requiring employers to make reasonable accommodations for disabled employees; it prohibits discrimination against disabled persons.

analytics Using tools like statistical techniques to examine data, in order to draw cause–effect conclusions from that data.

annual bonus Plans that are designed to motivate short-term performance of managers and that are tied to company profitability.

applicant tracking systems (ATSs) Online systems that help employers and recruiters attract, gather, screen, compile, and manage applicants throughout the recruiting and hiring process.

application form The form that provides information on education, prior work record, and skills.

appraisal interview An interview in which the supervisor and subordinate review the appraisal and make plans to remedy deficiencies and reinforce strengths.

apprenticeship training A structured process by which people become skilled workers through a combination of classroom instruction and on-the-job training.

arbitration The most definitive type of third-party intervention, in which the arbitrator usually has the power to determine and dictate the settlement terms.

artificial intelligence Using technology (particularly computers) to carry out tasks in a way that we would consider "human" or "smart."

authority The right to make decisions, direct others' work, and give orders.

authorization cards In order to petition for a union election, the union must show that at least 30% of employees may be interested in being unionized. Employees indicate this interest by signing authorization cards.

bargaining unit The group of employees the union will be authorized to represent.

beacons Tiny devices that continuously transmit radio signals identifying themselves.

behavior modeling A training technique in which trainees are first shown good management techniques in a film, are asked to play roles in a simulated situation, and are then given feedback and praise by their supervisor.

behavior modification Using contingent rewards or punishment to change behavior.

behavior-based safety Identifying the worker behaviors that contribute to accidents and then training workers to avoid these behaviors.

behavioral interview A series of job-related questions that focus on how the candidate reacted to actual situations in the past.

behaviorally anchored rating scale (BARS) An appraisal method that aims at combining the benefits of narrative critical incidents and quantified ratings by anchoring a quantified scale with specific narrative examples of good and poor performance.

benchmark job A job that is used to anchor the employer's pay scale and around which other jobs are arranged in order of relative worth.

benefits Indirect financial and nonfinancial payments employees receive for continuing their employment with the company.

bias The tendency to allow individual differences such as age, race, and sex to affect the appraisal ratings employees receive.

bias A predisposition for people to think or behave in a particular way.

bona fide occupational qualification (BFOQ) Requirement that an employee be of a certain religion, sex, or national origin where that is reasonably necessary to the organization's normal operation. Specified by the 1964 Civil Rights Act.

boycott The combined refusal by employees and other interested parties to buy or use the employer's products.

broadbanding Consolidating salary grades and ranges into just a few wide levels or "bands," each of which contains a relatively wide range of jobs and salary levels.

burnout The total depletion of physical and mental resources caused by excessive striving to reach an unrealistic work-related goal.

business process reengineering Redesigning business processes and jobs, usually by combining steps, so that small multifunction process teams using information technology do the jobs formerly done by a sequence of departments.

cafeteria benefits plan Individualized tax-qualified plans allowed by employers to accommodate employee preferences for benefits.

candidate-order (or contrast) error An error of judgment on the part of the interviewer due to interviewing one or more very good or very bad candidates just before the interview in question.

career The occupational positions a person has had over many years.

career development The lifelong series of activities that contribute to a person's career exploration, establishment, success, and fulfillment.

career management The process for enabling employees to better understand and develop their career skills and interests, and to use these skills and interests more effectively.

career path A structured sequence of job assignments through which a person progresses in an organization.

career planning The deliberate process through which someone becomes aware of personal skills, interests, knowledge, motivations, and other characteristics and establishes action plans to attain specific goals.

case study method A development method in which the manager is presented with a written description of an organizational problem to diagnose and solve.

cash balance plans Plans under which the employer contributes a percentage of employees' current pay to employees' pension plans every year, and employees earn interest on this amount.

central tendency A tendency to rate all employees the same way, such as rating them all average.

citation Summons informing employers and employees of the regulations and standards that have been violated in the workplace.

Civil Rights Act of 1991 (CRA 1991) The act that places the burden of proof back on employers and permits compensatory and punitive damages.

classes Grouping jobs based on a set of rules for each group or class, such as amount of independent judgment, skill, physical effort, and so forth, required. Classes usually contain similar jobs.

closed shop A form of union security in which the company can hire only union members. This was outlawed in 1947 but still exists in some industries (such as printing).

coaching Educating, instructing, and training subordinates.

codetermination Employees have the legal right to a voice in setting company policies.

collective bargaining The process through which representatives of management and the union meet to negotiate a labor agreement.

college recruiting Sending an employer's representatives to college campuses to prescreen applicants and create an applicant pool from the graduating class.

compa ratio Equals an employee's pay rate divided by the pay range midpoint for his or her pay grade.

comparable worth The concept by which women who are usually paid less than men can claim that men in comparable rather than in strictly equal jobs are paid more.

compensable factor A fundamental, compensable element of a job, such as skills, effort, responsibility, and working conditions.

competency model A graphic model that consolidates in a diagram, an overview of the competencies (the knowledge, skills, and behaviors) someone would need to do a job well.

competency-based job analysis Describing the job in terms of measurable, observable, behavioral competencies (knowledge, skills, and/or behaviors) that an employee doing that job must exhibit to do the job well.

competency-based pay Where the company pays for the employee's range, depth, and types of skills and knowledge, rather than for the job title he or she holds.

competitive advantage Any factors that allow an organization to differentiate its product or service from those of its competitors to increase market share.

competitive strategy A strategy that identifies how to build and strengthen the business's long-term competitive position in the marketplace.

compressed workweek Schedule in which employee works fewer but longer days each week.

construct validity A test that is construct valid is one that demonstrates that a selection procedure measures a construct and that construct is important for successful job performance.

content validity A test that is content valid is one that contains a fair sample of the tasks and skills actually needed for the job in question.

controlled experimentation Formal methods for testing the effectiveness of a training program, preferably with before-and-after tests and a control group.

corporate campaign An organized effort by the union that exerts pressure on the corporation by pressuring the company's other unions, shareholders, directors, customers, creditors, and government agencies, often directly.

corporate social responsibility Represents the company's commitment to operate ethically, and to contribute to economic development while improving the quality of life of its workforce and their families and of the local and global community.

corporate-level strategy Type of strategy that identifies the portfolio of businesses that, in total, comprise the company and the ways in which these businesses relate to each other.

criterion validity A type of validity based on showing that scores on the test (predictors) are related to job performance (criterion).

critical incident method Keeping a record of uncommonly good or undesirable examples of an employee's work-related behavior and reviewing it with the employee at predetermined times.

cross training Training employees to do different tasks or jobs than their own; doing so facilitates flexibility and job rotation.

Davis-Bacon Act (1931) A 1931 law that sets wage rates for laborers employed by contractors working for the federal government.

decertification Legal process for employees to terminate a union's right to represent them.

deferred profit-sharing plan A plan in which a certain amount of profits is credited to each employee's account, payable at retirement, termination, or death.

defined benefit pension plan A plan that contains a formula for determining retirement benefits.

defined contribution pension plan A plan in which the employer's contribution to employees' retirement savings funds is specified.

DEI (Diversity, Equity, Inclusion) Effort The policies, strategies, and practices that together aim to create and sustain a diverse and inclusive environment.

diary/log Daily listings made by workers of every activity in which they engage along with the time each activity takes.

digital dashboard Presents the manager with desktop graphs and charts, and shows a computerized picture of where the company stands on all those metrics from the HR scorecard process.

direct financial payments Pay in the form of wages, salaries, incentives, commissions, and bonuses.

discrimination Taking specific actions toward or against a person based on the person's group.

dismissal Involuntary termination of an employee's employment with the firm.

disparate rejection rates A test for adverse impact in which it can be demonstrated that there is a discrepancy between rates of rejection of members of a protected group and of others.

distributive justice Refers to a system of distributing rewards and discipline in which the actual results or outcomes are evenhanded and fair.

diversity The variety or multiplicity of demographic features that characterize a company's workforce, particularly in terms of race, sex, culture, national origin, handicap, age, and religion.

DOL online elaws advisors The U.S. Department of Labor provides "elaws Advisors" for laws it administers covering matters like pay and benefits.

downsizing The process of reducing, usually dramatically, the number of people employed by a firm.

early retirement window A type of offering by which employees are encouraged to retire early, the incentive being liberal pension benefits plus perhaps a cash payment.

earnings-at-risk pay plan Plan that puts some portion of employees' normal pay at risk if they don't meet their goals, in return for possibly obtaining a much larger bonus if they exceed their goals.

economic strike A strike that results from a failure to agree on the terms of a contract that involves wages, benefits, and other conditions of employment.

Electronic Communications Privacy Act (ECPA) The ECPA is a federal law intended to help restrict interception and monitoring of oral and wire communications.

electronic performance monitoring (EPM) Having supervisors electronically monitor the amount of computerized data an employee is processing per day, and thereby his or her performance.

electronic performance support systems (EPSSs) Sets of computerized tools and displays that automate training, documentation, and phone support; integrate this automation into applications; and provide support that's faster, cheaper, and more effective than traditional methods.

Employee assistance program (EAP) A formal employer program for providing employees with counseling and/or treatment programs for problems such as alcoholism, gambling, or stress.

employee compensation All forms of pay or rewards going to employees and arising from their employment.

employee orientation A procedure for providing new employees with basic background information about the firm.

employee recruiting Finding and/or attracting applicants for the employer's open positions.

employee relations The activity that involves establishing and maintaining the positive employee–employer relationships that contribute to satisfactory productivity, motivation, morale, and discipline, and to maintaining a positive, productive, and cohesive work environment.

Employee Retirement Income Security Act (ERISA) The 1974 law that provides government protection of pensions for all employees with company pension plans. It also regulates vesting rights (employees who leave before retirement may claim compensation from the pension plan).

Employee Retirement Income Security Act of 1974 (ERISA) Signed into law by President Ford to require that pension rights be vested and protected by a government agency, the PBGC.

employee stock ownership plan (ESOP) A corporation contributes shares of its own stock to a trust in which additional contributions are made annually. The trust distributes the stock to employees on retirement or separation from service.

employee stock ownership plan (ESOP) A qualified, tax-deductible stock bonus plan in which employers contribute stock to a trust for eventual use by employees.

employment engagement The extent to which an organization's employees are psychologically involved in, connected to, and committed to getting their jobs done.

Equal Employment Opportunity Commission (EEOC) The commission, created by Title VII, empowered to investigate job discrimination complaints and sue on behalf of complainants.

Equal Pay Act A 1963 amendment to the Fair Labor Standards Act designed to require equal pay for women doing the same work as men.

Equal Pay Act of 1963 The act requiring equal pay for equal work, regardless of sex.

equity The absence of systematic disparities, and the process of eliminating racial and other disparities and improving outcomes for everyone.

ethics The principles of conduct governing an individual or a group; specifically, the standards you use to decide what your conduct should be.

ethics The study of standards of conduct and moral judgment; also the standards of right conduct.

ethnocentric Here the company staffs its positions abroad with employees from its headquarters—with parent-country nationals, in other words.

ethnocentrism The tendency to view members of other social groups less favorably than members of one's own group.

executive coach An outside consultant who questions the executive's associates in order to identify the executive's strengths and weaknesses, and then counsels the executive to capitalize on those strengths and overcome the weaknesses.

exit interviews Interviews with employees who are leaving the firm, conducted for obtaining information about the job or related matters, to give the employer insight about the company.

expatriates (expats) Noncitizens of the countries in which employees are working.

expectancy A person's expectation that his or her effort will lead to performance.

expectancy chart A graph showing the relationship between test scores and job performance for a group of people.

fact finder A neutral party who studies the issues in a dispute and makes a public recommendation for a reasonable settlement.

fair day's work Output standards devised based on careful, scientific analysis.

Fair Labor Standards Act (1938) This 1938 act provides for minimum wages, maximum hours, overtime pay, and child labor provisions (these prohibit employing minors 16–18 years old in hazardous occupations, and restricts employment of those under 16). The FLSA, amended many times, covers most employees.

fair treatment Reflects concrete actions, such as "employees are treated with respect," and "employees are treated fairly."

family-friendly (or work–life) benefits Benefits such as child care that make it easier for employees to balance their work and family responsibilities.

Federal Violence Against Women Act of 1994 The act that provides that a person who commits a crime of violence motivated by gender shall be liable to the party injured.

financial incentives Financial rewards paid to workers whose production exceeds some predetemined standard.

flextime A work schedule in which employees' workdays are built around a core of midday hours, and employees determine, within limits, what other hours they will work.

FLSA hours worked advisor at www.dol.gov/elaws/esa/flsa/hoursworked provides information to determine which hours spent in work-related activities are considered FLSA "hours worked" and therefore must be paid.

FLSA overtime calculator at www.dol.gov/elaws/otcalculator. htm is used to calculate overtime pay.

FLSA overtime security advisor at www.dol.gov/elaws/overtime.htm helps determine which employees are exempt from the FLSA minimum.

forced distribution method Similar to grading on a curve; predetermined percentages of ratees are placed in various performance categories.

foreign service premiums Financial payments over and above regular base pay, typically ranging between 10% and 30% of base pay.

functional strategy A strategy that identifies what each department must do in terms of specific policies to help the company accomplish its strategic goals.

gainsharing plan An incentive plan that engages employees in a common effort to achieve productivity objectives and share the gains.

gender-role stereotypes The tendency to associate women with certain (frequently nonmanagerial) jobs.

global The global company aims to attract the best candidates globally, including freely using third-country nationals to staff its positions around the world with the best people available.

golden parachute A payment companies make in connection with a change in ownership or control of a company.

good faith bargaining Both parties are making every reasonable effort to arrive at agreement; proposals are being matched with counterproposals.

good-faith effort strategy An affirmative action strategy that emphasizes identifying and eliminating the obstacles to hiring and promoting women and minority group members, and increasing the minority or female applicant flow.

grade definition Written descriptions of the level of, say, responsibility and knowledge required by jobs in each grade. Similar jobs can then be combined into grades or classes.

grades A job classification system like the class system, although grades often contain dissimilar jobs, such as secretaries, mechanics, and firefighters. Grade descriptions are written based on compensable factors listed in classification systems.

graphic rating scale A scale that lists a number of traits and a range of performance for each. The employee is then rated by identifying the score that best describes his or her level of performance for each trait.

graphology The use of handwriting analysis to determine the writer's personality characteristics and moods, and even illnesses, such as depression.

grievance procedure Formal process for addressing any factor involving wages, hours, or conditions of employment that is used as a complaint against the employer.

group life insurance Provides lower rates for the employer or employee and includes all employees, including new employees, regardless of health or physical condition.

halo effect In performance appraisal, the problem that occurs when a supervisor's rating of a subordinate on one trait biases the rating of that person on other traits.

hardship allowances Payments that compensate expatriates for exceptionally hard living and working conditions at certain locations.

hazard awareness advisor at https://webapps.dol.gov/elaws/safety.html helps employers identify workplace hazards.

health maintenance organization (HMO) A prepaid healthcare system that generally provides routine round-the-clock medical services as well as preventive medicine in a clinic-type arrangement for employees, who pay a nominal fee in addition to the fixed annual fee the employer pays.

high-performance work system (HPWS) A set of human resource management policies and practices that promote organizational effectiveness.

HR audit An HR audit is an analysis of the completeness, efficiency, and effectiveness of the organization's HR functions, including its HR policies, practices, processes, and relevant metrics.

HR scorecard A process for assigning financial and nonfinancial goals or metrics to the human resource management–related chain of activities required for achieving the company's strategic aims and for monitoring results.

human resource management (HRM) The process of acquiring, training, appraising, and compensating employees, and

of attending to their labor relations, health and safety, and fairness concerns.

human resource metrics The quantitative gauge of a human resource management activity, such as employee turnover, hours of training per employee, or qualified applicants per position.

illegal bargaining items Items in collective bargaining that are forbidden by law; for example, a clause agreeing to hire "union members exclusively" would be illegal in a right-to-work state.

impasse Collective bargaining situation that occurs when the parties are not able to move further toward settlement, usually because one party is demanding more than the other will offer.

in-house development center A company-based method for exposing prospective managers to realistic exercises to develop improved management skills.

inclusion A state of being valued, respected and supported.

indirect financial payments Pay in the form of financial benefits such as insurance.

injunction A court order compelling a party or parties either to resume or to desist from a certain action.

inside games Union efforts to convince employees to impede or to disrupt production—for example, by slowing the work pace.

instrumentality The perceived relationship between successful performance and obtaining the reward.

insubordination Willful disregard or disobedience of the boss's authority or legitimate orders; criticizing the boss in public.

interest arbitration Arbitration enacted when labor agreements do not yet exist or when one or both parties are seeking to change the agreement.

interest inventory A personal development and selection device that compares the person's current interests with those of others now in various occupations so as to determine the preferred occupation for the individual.

international human resource management (IHRM) The human resource management concepts and techniques employers use to manage the human resource aspects of their international operations, including acquiring, training, appraising, and compensating employees, and attending to their labor relations, health and safety, and fairness concerns.

intrinsic motivation Motivation that derives from the pleasure someone gets from doing the job or task.

job aid A set of instructions, diagrams, or similar methods available at the job site to guide the worker.

job analysis The procedure for determining the duties and skill requirements of a job and the kind of person who should be hired for it.

job classification (or job grading) A method for categorizing jobs into groups.

job descriptions A list of a job's duties, responsibilities, reporting relationships, working conditions, and supervisory responsibilities—one product of a job analysis.

job enlargement Assigning workers additional same-level activities.

job enrichment Redesigning jobs in a way that increases the opportunities for the worker to experience feelings of responsibility, achievement, growth, and recognition.

job evaluation A systematic comparison done in order to determine the worth of one job relative to another.

job hazard analysis A systematic approach to identifying and eliminating workplace hazards before they occur.

job instruction training (JIT) Listing each job's basic tasks, along with key points, in order to provide step-by-step training for employees.

job posting Publicizing an open job to employees (often by literally posting it on bulletin boards) and listing its attributes, like qualifications, supervisor, working schedule, and pay rate.

job rotation A management training technique that involves moving a trainee from department to department to broaden his or her experience and identify strong and weak points.

job rotation Systematically moving workers from one job to another.

job sharing Allows two or more people to share a single full-time job.

job specifications A list of a job's "human requirements," or qualifications, that is, the requisite education, skills, personality, and so on—another product of a job analysis.

job-related interview A series of job-related questions that focus on relevant past job-related behaviors.

job-requirements matrix A more complete description of what the worker does and how and why he or she does it; it clarifies each task's purpose and each duty's required knowledge, skills, abilities, and other characteristics.

Landrum–Griffin Act of 1959 Also known as the *Labor Management Reporting and Disclosure Act*, this law aimed at protecting union members from possible wrongdoing on the part of their unions.

layoff An employer sending employees home due to a lack of work; this is typically a temporary situation.

lifelong learning Provides employees with continuing learning experiences over their tenure with the firm, with the aims of ensuring they have the opportunity to learn the skills they need to do their jobs and to expand their occupational horizons.

line authority Traditionally gives managers the right to issue orders to other managers or employees.

line manager A manager who is authorized to direct the work of subordinates and is responsible for accomplishing the organization's tasks.

locals Citizens of the countries in which employees are working; also called *host-country nationals*.

lockout A refusal by the employer to provide opportunities to work.

machine learning Software that can improve its own performance and learn on its own.

management assessment center A simulation in which management candidates are asked to perform realistic tasks in hypothetical situations and are scored on their performance. It usually also involves testing and the use of management games.

management development Any attempt to improve current or future management performance by imparting knowledge, changing attitudes, or increasing skills.

management game Computerized management games enable trainees to learn by making realistic decisions in simulated situations, and usually to receive small rewards such as badges.

management process The five basic functions of planning, organizing, staffing, leading, and controlling.

manager Someone who is responsible for accomplishing the organization's goals, and who does so by managing the efforts of the organization's people.

managing To perform five basic functions: planning, organizing, staffing, leading, and controlling.

mandatory bargaining items Items in collective bargaining that a party must bargain over if they are introduced by the other party—for example, pay.

market-competitive pay plan Pay plan where pay rates are equitable both internally (based on each job's relative value) and externally (in other words, when compared with what other employers are paying).

market-competitive pay system A pay system in which the employer's actual pay rates are competitive with those in the relevant labor market.

mass interview A panel interviews several candidates simultaneously.

mediation Intervention in which a neutral third party tries to assist the principals in reaching agreement.

mentoring Advising, counseling, and guiding.

merit pay (merit raise) Any salary increase awarded to an employee based on his or her individual performance.

miniature job training and evaluation Training candidates to perform several of the job's tasks, and then evaluating the candidates' performance prior to hire.

minority According to EEOC guidelines, four particular groups who share a race, color, or national origin, specifically American Indian or Alaskan Native; Asian or Pacific Islander; Black (except Hispanic); and Hispanic.

mobility premiums Typically, lump-sum payments to reward employees for moving from one assignment to another.

national emergency strikes Strikes that might "imperil the national health and safety."

National Labor Relations (or Wagner) Act This law banned certain types of unfair practices and provided for secret-ballot elections and majority rule for determining whether a firm's employees want to unionize.

National Labor Relations Board (NLRB) The agency created by the Wagner Act to investigate unfair labor practice charges and to provide for secret-ballot elections and majority rule in determining whether a firm's employees want a union.

negligent hiring Hiring workers with questionable backgrounds without proper safeguards.

negligent training A situation where an employer fails to train adequately, and the employee subsequently harms a third party.

Norris–LaGuardia Act of 1932 This law marked the beginning of the era of strong encouragement of unions and guaranteed to each employee the right to bargain collectively "free from interference, restraint, or coercion."

occupational illness Any abnormal condition or disorder caused by exposure to environmental factors associated with employment.

Occupational Safety and Health Act of 1970 The law passed by Congress in 1970 "to assure so far as possible every working man and woman in the nation safe and healthful working conditions and to preserve our human resources."

Occupational Safety and Health Administration (OSHA) The agency created within the Department of Labor to set safety and health standards for almost all workers in the United States.

Office of Federal Contract Compliance Programs (OFCCP) This office is responsible for implementing the executive orders and ensuring compliance of federal contractors.

on-demand recruiting services (ODRS) Services that provide short-term specialized recruiting to support specific projects without the expense of retaining traditional search firms.

on-the-job training (OJT) Training a person to learn a job while working on it.

operational safety reviews Reviews conducted by agencies to ascertain whether units under their jurisdiction are complying with all the applicable safety laws, regulations, orders, and rules.

organization A group consisting of people with formally assigned roles who work together to achieve the organization's goals.

organization chart A chart that shows the organizationwide distribution of work, with titles of each position and interconnecting lines that show who reports to and communicates with whom.

organizational climate The perceptions a company's employees share about the firm's psychological environment, for instance, in terms of things like concern for employees' well-being, supervisory behavior, flexibility, appreciation, ethics, empowerment, political behaviors, and rewards.

organizational culture The characteristic values, traditions, and behaviors a company's employees share.

organizational development A special approach to organizational change in which employees themselves formulate and implement the change that's required.

organizationwide incentive plan Incentive plan in which all or most employees can participate.

outplacement counseling A formal process by which a terminated person is trained and counseled in the techniques of self-appraisal and securing a new position.

paired comparison method Ranking employees by making a chart of all possible pairs of the employees for each trait and indicating which is the better employee of the pair.

panel interview An interview in which a group of interviewers questions the applicant.

parent or home-country nationals Citizens of the country in which the multinational company has its headquarters.

pay (or rate) ranges A series of steps or levels within a pay grade, usually based upon years of service.

pay (or wage) grade A pay grade is composed of jobs of approximately equal difficulty.

pay-for-performance Any plan that ties pay to some measure of performance, such as productivity or profitability.

Pension Benefits Guarantee Corporation (PBGC) Established under ERISA to ensure that pensions meet vesting obligations; also insures pensions should a plan terminate without sufficient funds to meet its vested obligations.

pension plans Plans that provide a fixed sum when employees reach a predetermined retirement age or when they can no longer work due to disability.

performance analysis Verifying that there is a performance deficiency and determining whether that deficiency should be corrected through training or through some other means (such as transferring the employee).

performance appraisal Evaluating an employee's current and/or past performance relative to his or her performance standards.

performance appraisal process A three-step appraisal process involving (1) setting work standards, (2) assessing the employee's actual performance relative to those standards, and (3) providing feedback to the employee with the aim of helping him or her to eliminate performance deficiencies or to continue to perform above par.

performance management The *continuous* process of identifying, measuring, and developing the performance of individuals and teams and *aligning* their performance with the organization's *goals*.

personnel replacement charts Company records showing present performance and promotability of inside candidates for the most important positions.

picketing Having employees carry signs announcing their concerns near the employer's place of business.

piecework A system of pay based on the number of items processed by each individual worker in a unit of time, such as items per hour or items per day.

point method The job evaluation method in which a number of compensable factors are identified and then the degree to which each of these factors is present on the job is determined.

polycentric Here the company staffs positions abroad with local or host-country employees.

polygraph A device that measures physiological changes like increased perspiration, on the assumption that such changes reflect lying.

Portability Instituting policies that enable employees to easily take their accumulated pension funds when they leave an employer.

portfolio careers Careers based on using one's skills to create a livelihood from multiple income sources, often from several jobs paying different rates.

position analysis questionnaire (PAQ) A questionnaire used to collect quantifiable data concerning the duties and responsibilities of various jobs.

position replacement card A card prepared for each position in a company to show possible replacement candidates and their qualifications.

preferential shop Union members get preference in hiring, but the employer can still hire nonunion members.

Pregnancy Discrimination Act An amendment to Title VII of the Civil Rights Act that prohibits sex discrimination based on "pregnancy, childbirth, or related medical conditions."

prejudice A bias toward prejudging someone based on that person's traits.

problem-solving teams Teams that identify and research work processes and develop solutions to work-related problems.

procedural justice Refers to just procedures in the allocation of rewards or discipline, in terms of the actual procedures being evenhanded and fair.

process chart A workflow chart that shows the flow of inputs to and outputs from a particular job.

productivity The ratio of outputs (goods and services) divided by the inputs (resources such as labor and capital) required to produce those outputs.

profit-sharing plan A plan whereby employees share in the company's profits.

programmed learning A systematic method for teaching job skills, involving presenting questions or facts, allowing the person to respond, and giving the learner immediate feedback on the accuracy of his or her answers.

promotion Advancement to a position of increased responsibility.

protected class Persons such as minority group members and women protected by equal opportunity laws, including Title VII.

qualified individuals Under ADA, those who can carry out the essential functions of the job.

quality circle A special type of formal problem-solving team, usually composed of 6 to 12 specially trained employees who meet once a week to solve problems affecting their work area.

ranking method The simplest method of job evaluation that involves ranking each job relative to all other jobs, usually based on overall difficulty.

ratio analysis A forecasting technique for determining future staff needs by using ratios between, for example, sales volume and number of employees needed.

reality shock Results of a period that may occur at the initial career entry when the new employee's high job expectations confront the reality of a boring or otherwise unattractive work situation.

recruiting yield pyramid The historical arithmetic relationships between recruitment leads and invitees, invitees and interviews, interviews and offers made, and offers made and offers accepted.

reliability The consistency of scores obtained by the same person when retested with the identical tests or with alternate forms of the same test.

restricted policy Another test for adverse impact, involving demonstration that an employer's hiring practices exclude a protected group, whether intentionally or not.

reverse discrimination Claim that due to affirmative action quota systems, *non*minority applicants and employees are discriminated against.

right to work A term used to describe state statutory or constitutional provisions banning the requirement of union membership as a condition of employment.

rights arbitration Arbitration that interprets existing contract terms, for instance, when an employee questions the employer's right to take some disciplinary action.

role-playing A training technique in which trainees act out parts in a realistic management situation.

safety awareness program Program that enables trained supervisors to orient new workers arriving at a job site regarding common safety hazards and simple prevention methods.

salary survey A survey aimed at determining prevailing wage rates. A good salary survey provides specific wage rates for specific jobs. Formal written questionnaire surveys are the most comprehensive, but telephone surveys and newspaper ads are also sources of information.

savings and thrift plan Plan in which employees contribute a portion of their earnings to a fund; the employer usually matches this contribution in whole or in part.

Scanlon plan An incentive plan developed in 1937 by Joseph Scanlon and designed to encourage cooperation, involvement, and sharing of benefits.

scatter plot A graphical method used to help identify the relationship between two variables.

scientific management movement Management approach based on improving work methods through observation and analysis.

self-managing/self-directed work team A small (usually 8 to 10 members) group of carefully selected, trained, and empowered employees who basically run themselves with little or no outside supervision, usually for the purpose of accomplishing a specific task or mission.

severance pay A one-time payment some employers provide when terminating an employee.

sexual harassment Harassment on the basis of sex that has the purpose or effect of substantially interfering with a person's work performance or creating an intimidating, hostile, or offensive work environment.

shadow learner Learners who seek opportunities to learn and practice their jobs in nontraditional ways.

sick leave Provides pay to an employee when the person is out of work because of illness.

situational interview A series of job-related questions that focus on how the candidate would behave in a given situation.

situational test A test that requires examinees to respond to situations representative of the job.

smart PPE A wearable that delivers real-time safety information to and from workers.

Social Security Federal program that provides three types of benefits: retirement income at the age of 62 and thereafter, survivor's or death benefits payable to the employee's dependents regardless of age at time of death, and disability benefits payable to disabled employees and their dependents. These benefits are payable only if the employee is insured under the Social Security Act.

staff authority Gives a manager the right to advise other managers or employees.

staff manager A manager who assists and advises line managers.

standard hour plan A plan by which a worker is paid a basic hourly rate but is paid an extra percentage of his or her rate for production exceeding the standard per hour or per day. Similar to piecework payment but based on a percent premium.

Standard Occupational Classification (SOC) Classifies all workers into one of 23 major groups of jobs that are subdivided into minor groups of jobs and detailed occupations.

stereotyping Ascribing specific behavioral traits to individuals based on their apparent membership in a group.

stock option The right to purchase a stated number of shares of a company stock at today's price at some time in the future.

straight piecework An incentive plan in which a person is paid a sum for each unit they produce or sell, with a strict proportionality between results and rewards.

strategic human resource management Formulating and executing human resource policies and practices that produce the employee competencies and behaviors the company needs to achieve its strategic aims.

strategic management The process of crafting, executing, and evaluating the organization's strategic plan.

strategic plan The company's overall plan for how it will maintain a successful competitive position, given its internal strengths and weaknesses and its external opportunities and threats.

strategy A course of action to achieve an overall aim.

strategy map A strategic planning tool that shows the "big picture" of how each department's performance contributes to achieving the company's overall strategic goals.

strategy-based metrics Metrics that specifically focus directly on measuring the activities that contribute to achieving a company's strategic aims.

stress interview An interview in which the applicant is made uncomfortable by a series of often rude questions. This technique helps identify hypersensitive applicants and those with low or high stress tolerance.

strictness/leniency The problem that occurs when a supervisor has a tendency to rate all subordinates either high or low.

strike A withdrawal of labor.

structured (or directive) interview An interview following a set sequence of questions.

structured sequential interview An interview in which the applicant is interviewed sequentially by several persons; each rates the applicant on a standard form.

structured situational interview A series of job-relevant questions with predetermined answers that interviewers ask of all applicants for the job.

succession planning The ongoing process of systematically identifying, assessing, and developing organizational leadership to enhance performance.

suggestion teams Temporary teams whose members work on specific analytical assignments, such as how to cut costs or raise productivity.

supplemental pay benefits Most broadly all pay one receives beyond wages or salary, although sometimes used to refer to benefits for time not worked such as unemployment insurance, vacation and holiday pay, and sick pay.

supplemental unemployment benefits Provide for a "guaranteed annual income" in certain industries where employers must shut down to change machinery or due to reduced work. These benefits are paid by the company and supplement unemployment benefits.

sympathy strike A strike that takes place when one union strikes in support of the strike of another.

Taft–Hartley Act of 1947 Also known as the *Labor Management Relations Act*, this law prohibited unfair union labor practices and enumerated the rights of employees as union members. It also enumerated the rights of employers.

talent management The integrated and results-oriented process of recruiting, selecting, developing, motivating, and retaining employees.

task analysis A detailed study of a job to identify the specific skills required.

task statement Written item that shows *what* the worker does on one particular job task; *how* the worker does it; the *knowledge, skills, and aptitudes required* to do it; and the *purpose of the task*.

team (or group) incentive plan A plan in which a production standard is set for a specific work group, and its members are paid incentives if the group exceeds the production standard.

telecommuting Also called telework, telecommuting means using technology such as email, phones, and the Internet to perform one's work while away from the office.

terminate at will In the absence of a contract, either the employer or the employee can terminate at will the employment relationship.

termination interview The interview in which an employee is informed of the fact that the person has been dismissed.

test validity The accuracy with which a test, interview, and so on, measures what it purports to measure or fulfills the function it was designed to fill.

the cloud Refers to placing software programs and services on vendors' remote servers, from which they can then deliver these programs and services seamlessly to employees' digital devices.

third-country nationals Citizens of a country other than the parent or the host country.

Title VII of the 1964 Civil Rights Act The section of the act that says an employer cannot discriminate on the basis of race, color, religion, sex, or national origin with respect to employment.

Title VII of the 1964 Civil Rights Act This act makes it unlawful for employers to discriminate against any individual with respect to hiring, compensation, terms, conditions, or privileges of employment because of race, color, religion, sex, or national origin.

tokenism Appointing a small group of women or people of color to high-profile positions, rather than more aggressively seeking full representation for that group.

total rewards Rewards that encompass not only compensation and benefits but also personal and professional growth opportunities and a motivating work environment.

training The process of teaching new or current employees the basic skills they need to perform their jobs.

transfers Reassignments to similar positions in other parts of the firm.

trend analysis Study of a firm's past employment needs over a period of years to predict future needs.

unclear standards An appraisal that is too open to interpretation.

unemployment insurance (or compensation) Provides benefits if a person is unable to work through some fault other than his or her own.

unfair labor practice strike A strike aimed at protesting illegal conduct by the employer.

Uniform Guidelines Guidelines issued by federal agencies charged with ensuring compliance with equal employment federal legislation explaining recommended employer procedures in detail.

union salting A union organizing tactic by which workers who are in fact employed full-time by a union as undercover organizers are hired by unwitting employers.

union shop A form of union security in which the company can hire nonunion people, but they must join the union after a prescribed period of time and pay dues. (If they do not, they can be fired.)

unsafe conditions The mechanical and physical conditions that cause accidents.

unstructured (or nondirective) interview An unstructured conversational-style interview in which the interviewer pursues points of interest as they come up in response to questions.

unstructured sequential interview An interview in which each interviewer forms an independent opinion after asking different questions.

valence The perceived value a person attaches to the reward.

variable pay Any plan that ties pay to productivity or profitability, usually as one-time lump payments.

video-based simulation A situational test in which examinees respond to video simulations of realistic job situations.

virtual classroom Teaching method that uses special collaboration software to enable multiple remote learners, using their PCs or laptops, to participate in live audio and visual discussions.

virtual teams Groups of geographically dispersed and generally same-level coworkers who meet and interact using information technologies to accomplish an organizational task.

Vocational Rehabilitation Act of 1973 The act requiring certain federal contractors to take affirmative action for disabled persons.

voluntary (or permissible) bargaining items Items in collective bargaining over which bargaining is neither illegal nor mandatory—neither party can be compelled against its wishes to negotiate over those items.

wage curve Shows the relationship between the value of the job and the average wage paid for this job.

Walsh-Healey Public Contract Act (1936) A 1936 law that requires minimum wage and working conditions for employees working on any government contract amounting to more than $10,000.

Web 2.0 learning Training that uses online technologies such as social networks, virtual worlds (such as Second Life), and systems that blend synchronous and asynchronous delivery with blogs, chat rooms, bookmark sharing, and tools such as 3-D simulations.

wildcat strike An unauthorized strike occurring during the term of a contract.

work samples Actual job tasks used in testing applicants' performance.

work sampling technique A testing method based on measuring performance on actual basic job tasks.

work sharing Refers to a temporary reduction in work hours by a group of employees during economic downturns as a way to prevent layoffs.

workers' compensation Provides income and medical benefits to work-related accident victims or their dependents regardless of fault.

workflow analysis A detailed study of the flow of work from job to job in a work process.

workforce (or employment or personnel) planning The process of deciding what positions the firm will have to fill and how to fill them.

works councils Formal, employee-elected groups of worker representatives.

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